FOREIGN BUILDING OPERATIONS

G

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL OPERATIONS AND HUMAN RIGHTS

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JUNE 27, 1996

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE

26–802 CC WASHINGTON : 1996

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-053537-9

FOREIGN BUILDING OPERATIONS

G

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL OPERATIONS AND HUMAN RIGHTS

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JUNE 27, 1996

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE

26–802 CC WASHINGTON : 1996

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-053537-9

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
SAM BROWNBACK, Kansas
DAVID FUNDERBURK, North Carolina
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California

LEE H. HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
ALCEE L. HASTINGS, Florida
ALBERT RUSSELL WYNN, Maryland
JAMES P. MORAN, Virginia
VICTOR O. FRAZER, Virgin Islands (Ind.)
CHARLIE ROSE, North Carolina
PAT DANNER, Missouri

RICHARD J. GARON, *Chief of Staff*
MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

SUBCOMMITTEE ON INTERNATIONAL OPERATIONS AND HUMAN RIGHTS

CHRISTOPHER H. SMITH, New Jersey, *Chairman*

BENJAMIN A. GILMAN, New York
WILLIAM F. GOODLING, Pennsylvania
HENRY J. HYDE, Illinois
PETER T. KING, New York
DAVID FUNDERBURK, North Carolina
MATT SALMON, Arizona
EDWARD R. ROYCE, California

TOM LANTOS, California
CYNTHIA A. MCKINNEY, Georgia
JAMES P. MORAN, Virginia
HOWARD L. BERMAN, California
ENI F.H. FALEOMAVAEGA, American Samoa
DONALD M. PAYNE, New Jersey

GROVER JOSEPH REES, *Subcommittee Staff Director and Chief Counsel*
ROBERT R. KING, *Democratic Professional Staff Member*
DOUGLAS C. ANDERSON, *Professional Staff Member*
STEPHANIE E. SCHMIDT, *Staff Associate*

CONTENTS

WITNESSES

	Page
Hon. Patrick F. Kennedy, Assistant Secretary, Bureau of Administration, U.S. Department of State	5
Ms. Jacquelyn L. Williams-Bridgers, Inspector General, U.S. Department of State, Arms Control and Disarmament Agency, U.S. Information Agency	9
Mr. Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division, U.S. General Accounting Office	13

APPENDIX

Prepared statements:	
Hon. Patrick F. Kennedy	29
Ms. Jacquelyn L. Williams-Bridgers	37
Mr. Benjamin F. Nelson	56

FOREIGN BUILDING OPERATIONS

THURSDAY, JUNE 27, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS AND HUMAN RIGHTS,
Washington, DC.

The subcommittee met pursuant to call at 2:30 p.m. in room 2172, Rayburn House Office Building, Hon. Christopher H. Smith (chairman of the subcommittee) presiding.

Mr. SMITH. The subcommittee will convene.

This hearing on the management and possible mismanagement of foreign properties comes at a time when all Americans are outraged at the terrorist bombing of a facility housing the U.S. Military personnel in Saudi Arabia. This incident has underscored the fact that our commitments overseas involve not only tax dollars, but also human lives. Even as we mourn those who died, we must ask whether our government is doing enough to protect the Americans we have sent overseas.

In today's world, the United States must maintain a strong and secure overseas presence. Our foreign posts are an integral part of that presence and constitute the platform from which we conduct much of our diplomacy.

At the same time, the Federal Government is increasingly being required to live within its means, both at home and abroad.

Now more than ever, therefore, waste and fiscal irresponsibility are unacceptable. Our foreign policy dollars must be put to their highest use.

Charges that our government is spending U.S. tax dollars to maintain diplomatic palaces or beach front boondoggles are especially important at a time when we desperately need those tax dollars for the protection of American lives and the advancement of the just interests of the United States.

The State Department's existing inventory of Government-owned and long-term leased overseas properties has an estimated value of over $10,000,000,000. The Department's $386,000,000 request for security and maintenance of U.S. missions constitutes more than 9 percent of the total amount of the 1997 State Appropriations Act.

Perhaps because those holdings are so far flung, the State Department's Office of Foreign Building Operations has long been plagued by charges of lax management and budgetary waste.

Our hearing today will focus on what progress has been made in the management and operation of foreign buildings and on what problems still exist to be addressed.

In the past 30 years, the General Accounting Office has noted many serious deficiencies in the way the State Department manages overseas property.

In 1990, for example, the GAO identified the management of overseas property as a "high risk area" for waste, fraud, abuse, and mismanagement.

In response, the State Department strengthened its management of overseas real property enough to be removed from GAO's high risk list last year.

However, GAO also cautioned that, because some problems still exist, State's management of overseas real property needs to be closely monitored.

For example, in a report released in May of last year, GAO found that every overseas post it reviewed had used routine maintenance funds for questionable or inappropriate purposes, such as, for example, the resurfacing of a tennis court at an ambassador's residence.

Last April, the GAO reported that the State Department's inaction on proposals to sell high-value property in Japan had cost American taxpayers millions of dollars.

For example, the report noted that the residence of the Deputy Chief of Mission in Tokyo is valued at $92,000,000. GAO also estimated that this residence could be replaced for $3.8 million on land already owned by the U.S. Government.

Most recently, in a report released 2 months ago, the GAO reported that the State Department could generate many millions of dollars in additional revenue by selling unneeded overseas real estate.

While recognizing that the Department had identified more unneeded foreign properties for sale in the past 2 years, the GAO report identifies many other properties that the State Department has not yet decided to sell, including property at closed posts, vacant properties and high value properties being put to questionable use.

For example, although the State Department closed the Zanzibar consulate in 1979, it retained the consul general's residence and has used it primarily for recreation. In 1987, it spent over $100,000 to renovate that residence, which costs over $30,000 a year to maintain.

Although the State Department closed the Alexandria, Egypt consulate in 1993, it has retained the consulate general's residence, which is valued at over $1,000,000.

In Buenos Aires, Argentina, the Department maintains a 43,000-square-foot mansion as a residence for the ambassador. The mansion, which is valued as high as $20,000,000, costs about half a million dollars a year to maintain.

These are but three of the many examples contained in the GAO report. However, more important than those examples are the systemic flaws that the report identifies in the Department's management of foreign properties.

First, the State Department has no systematic process to identify and sell excess properties. Embassies have held unneeded properties for years and are not regularly required to identify underutilized real estate.

In some cases the embassies and the State Department have disagreed on whether to sell identified property, leading to costly internal negotiations that drag on for years.

Second, the State Department has not developed a routine procedure for applying sale proceeds to the Department's global priorities.

In some cases, embassies have stated that they will cooperate in a sale only if they are given use of the proceeds.

In most cases, the State Department gives the embassy that sells property first consideration in the use of sale funds, without weighing its proposal against the needs of other embassies.

Furthermore, most of those uses are not justified in the annual congressional budget.

Against this back drop it is hard to avoid the conclusion that, without outside oversight, some foreign posts will not become team players, and will put their own parochial interests ahead of posts with greater needs.

In today's world where resources are limited and lives are at stake, such an attitude is entirely unacceptable.

Given that the sale of already identified property could generate revenues approaching half a billion dollars, this problem must be addressed.

To date, the State Department's response to the report has been equivocal and confusing. In a written response to the draft report, the Department claimed to agree and I quote, "to agree with the thrust of the report's findings", while conspicuously failing to commit to any of its specific recommendations that were made by the GAO.

Four months later, Spokesman Nicholas Burns sounded a very different note, stating, and I quote, "We don't have any beach front resorts. We don't have any vacant ambassadorial residences in our inventory of overseas property. Their facts are wrong and I challenge the GAO to tell us otherwise."

Again, 3 days later, he protested, "We're not just going to sit here and take this. I think the GAO has made a serious mistake in taking us on."

We hope to dispel some of the confusion here today at this hearing, with the help of our distinguished witnesses. By the end of this hearing, I trust we will know what the State Department is doing to improve the management of our foreign buildings, how committed the Department is to implementing the specific GAO recommendations, and what else might be done in this area to improve our stewardship of tax dollars, while giving Americans overseas the support and the protection that they deserve.

Mr. SMITH. I would like to yield to the distinguished chairman of the full committee, Mr. Gilman, of New York.

Mr. GILMAN. Thank you, Mr. Chairman. I want to thank you for conducting this hearing in such a timely manner.

Mr. Kennedy, it is good to see you to discuss some other issues, other than the Moscow embassy and we hope you are making some progress there.

Mr. KENNEDY. We thank you, Mr. Chairman.

Mr. GILMAN. Protecting our investments in overseas properties through timely repair and maintenance and assuring proper living and work facilities is an unquestionable mandate. We can all agree that cost efficiency is also a major priority.

The Office of Foreign Buildings, with a sizable portion of the overall Department budget, has been operating with a number of deficiencies, as identified by GAO, OMB and the State Department's Inspector Office.

The point is, we have a responsibility to our taxpayers to effectively manage our overseas infrastructure. Real estate management tops the list of areas that must be improved.

In-house disputes or presumed pressure from host countries should not derail the Department from making decisions that are in our government's best interest.

After all, how long can we hear cries that the budget cuts are devastating our overseas operations, when millions of dollars are tied up in an excess of vacant palatial property?

Is it truly wise to hold onto excess properties when other facilities are inadequate to sustain and protect the presence of U.S. officials working overseas?

So I think the real issue is one of Departmental priority and the major question is, is it more important to expend $140,000 a year just to maintain one house or should those funds be invested in language training for several officers or job training?

What about the need to replace the inadequate computer system of the Department? It is time to restore our confidence that the Department is in control of the backbone of the overseas operation, including pursuing basic cost efficiencies and approval in tracking and follow-up system.

In addition, a range of security policies and procedures must be integrated into the maintenance and construction project. Risk management may have advantages, but not if it is unwisely giving a green light to drain off resources for other departmental activity.

Funding for essential security features should not be compromised. The devastating event in Dhaharan underscores that security issues must be front and center for the Bureau of Diplomatic Security and the Office of Foreign Building.

So with that said, we look forward to hearing from our witnesses.

Again, Mr. Chairman, thank you for arranging this hearing.

Mr. SMITH. Thank you very much, Chairman Gilman.

I would like to thank our panel for being here today and to introduce each of them.

Secretary Patrick F. Kennedy is Minister-Counselor in the U.S. Foreign Service and is currently serving as Assistant Secretary of State for Administration. Over the past 23 years, Mr. Kennedy has served in the foreign service in many capacities all over the world. He received his B.S.F.S from Georgetown University.

Jacquelyn L. Williams-Bridgers is the Inspector General for the State Department's U.S. Information Agency, including the Broadcasting Board of Governors. Prior to working for the State Department, Ms. Williams-Bridgers held a variety of positions with the General Accounting Office. She received a Bachelor of Arts from Syracuse University and a Masters in Public Administration from the Maxwell School of Public Affairs and Citizenship.

Finally, Mr. Benjamin F. Nelson is the Director of International Relations and Trade Issues in the General Accounting Office's National Security and International Affairs Division. Mr. Nelson has held numerous positions with the GAO. He received a B.A. in Business Administration from Albany State College and has a graduate degree from John Hopkins University's School of Advanced International Studies. Mr. Nelson also completed work on international trade and competitiveness issues at Georgetown University and the University of California at Berkeley.

Secretary Kennedy, if you could begin with your presentation.

STATEMENT OF PATRICK F. KENNEDY, ASSISTANT SECRETARY, BUREAU OF ADMINISTRATION, U.S. DEPARTMENT OF STATE

Mr. KENNEDY. Thank you very much, Mr. Chairman.

I appreciate the opportunity to appear before you this afternoon to discuss the Department of State's stewardship of diplomatic and counselor properties.

The Department's Office of Foreign Buildings Operation is responsible for the acquisition, operation and maintenance of some 12,000 office and residential properties, which support approximately 50 U.S. Government departments and agencies at over 250 embassies and consulates abroad.

Some 3,000 of these properties, with an estimated value of $10,000,000,000 are owned by the United States. As steward of these assets, we employ a broad range of talents from architects and engineers, to experts in real estate, fire safety, building security and interior design.

Our mission is to make prudent decisions to protect our investments and ensure taxpayer dollars are wisely used. We continually examine our operations, striving to develop more cost-effective means of accomplishing this task.

This is done amidst the formidable challenge of establishing secure and functional facilities within existing resource levels in the Baltics, the Newly Independent States of the former Soviet Union, in the former Yugoslavia and in other regions of the world.

Furthermore, we are striving to address an inventory of approximately $350,000,000 in deferred maintenance and repair requirements at our overseas facilities.

We face a difficult challenge, because this is a structural problem rather than a one-time deficit. The inventory of requirements is ever changing since as present requirements are met, new ones appear, given the continuous aging process of facilities.

The key is to stabilize the inventory at a point where we can provide an acceptable level of efficiency in a safe and secure operating environment.

By way of historical perspective, in 1985, following the submission to the Congress of the Inman Commission's Report on overseas security, my predecessors focused on acquisition and new construction as the best strategies to meet our long-term requirements.

Now, given new fiscal realities, this is no longer the case. During the last 4 years, we have shifted our program funding to emphasize maintenance and facility life extension.

We are also striving to control the considerable growth of leasehold costs by using asset sales to purchase facilities to contain the growth of these costs, as well as to meet some of our capital requirements.

I am pleased with our management initiatives to implement these objectives. Though we have by no means fully accomplished all our goals, we have made significant progress. To set the context, I would like to highlight some of our efforts to date.

Considerable improvement in the management of our resources for overseas maintenance led the Office of Management and Budget to remove this program from its list of Federal programs with a high risk of management vulnerability in 1994 and the General Accounting Office to take similar action in 1995. We built on several important initiatives to reach this milestone.

First, we established a program to do global maintenance surveys on our worldwide properties to identify the condition of our facilities and prioritize needed workload.

Second, we increased the professionalism of maintenance by establishing a corps of skilled maintenance specialists and assigned them to areas with particularly complex physical plant requirements.

We also set up a Washington base maintenance assistance center to support posts that lack expertise in replacement of large, complex building systems.

Third, we established the facilities rehabilitation and support systems replacement program, which has become the cornerstone of our effort to extend the life of our facilities.

This program systematically rehabilitates our aging inventory facilities. Since 1991, over 100 projects at 75 posts have been identified as part of this program.

Fourth, we have developed a facilities project information system which will consolidate all known facility requirements in a centralized data base.

This system will bring a clearer focus to the process of identifying, planning, funding and tracking facilities projects.

In another arena, in order to contain the cost of new construction, we have focused our attention on modular construction.

In certain circumstances, U.S. factory modular structures can help contain the cost of new construction. There are numerous benefits here: limiting onsite construction, during which problems can arise, particularly in remote areas where materials and skilled labor are in short supply, reducing overhead for project supervision and showcasing American products and technology.

We have recently acquired a modular chancery and housing in Ashgabat, Turkmenistan, modular housing in Tirana, Albania and are planning to acquire a modular structure for a permanent chancery in Bishkek, Kyrgystan.

While security remains integral to our facility concerns, we are continually looking for the most cost-effective means to meet this important objective.

In recognition of the wide range of variables, the Department has revised and refined its construction security standards in conjunction with other agencies to provide managers a more practical basis for making security decisions on a project-by-project basis.

This commitment to security through risk management, threat-specific-analysis, enables us to determine the best means to protect the security of our people, property and information overseas.

Though the era of major capital projects is drawing to a close, there are several important building projects whose status is noteworthy.

Our most important program involves reconstruction of the new embassy office building in Moscow. I am pleased to report that this project is proceeding as planned, the contract has been awarded and preliminary work has already begun. We are confident that the building will be completed by 1999 within the funding specifically provided by the Congress.

In other areas, we have over the past 2 years completed a dozen large construction projects. New chanceries in Bangkok, Bissau, Caracas, La Paz, Lima and Santiago. Major rehabilitations in Hong Kong, Tel Aviv, Moscow and Port Moresby and new annexes in Hong Kong and Cairo.

We are also nearing completion of the rehabilitation of our chancery in Mexico City and construction of office and residential compounds in Kuwait and Singapore.

As we strive to be good stewards of public funds, the costs of our programs is always foremost in our minds.

The FBO is funded as a no-year account under the Foreign Buildings Act of 1926. This structure is essential to provide the flexibility necessary to maintain complex construction schedules, which routinely span several fiscal years and to ensure projects are completed in a timely and cost-effective manner.

The Department is requesting $386,000,000 for the security and maintenance of U.S. missions in fiscal year 1997. This level is essentially a freeze on the 1996 program level, when the one-time rescission of balances is excluded.

The request provides the minimum amount required to meet our basic operating requirements. Sixty-two percent is for maintenance, technical support and repairs and rehabilitation of facilities.

With the average age of our properties at 38 years, maintaining and extending their useful life presents considerable challenge.

Thirty-two percent is for the payment of lease costs. Lease payments must be made if we are to retain the use of our overseas platforms and 6 percent is for administrative support. There is no funding request for new capital projects.

In recent years, Congress has rescinded $94,000,000 in resources available to this program at a time when we are facing a growing list of requirements for which we lack budgetary resources.

These reductions have severely limited our flexibility to respond to unbudgeted program requirements and hindered our ability to address unmet infrastructure needs.

We have had to defer essential maintenance and critical rehabilitation projects which are needed to extend the life of our existing facilities and thereby avoid costly new construction.

Department facilities abroad form the platform from which all U.S. Government agencies conduct their activities. Additional cuts of this magnitude could put at risk the safety and effectiveness of U.S. Government personnel and operations abroad.

Given these fiscal restraints, we are devoting available funding to meet the most urgent maintenance repair requirements and to fund leasehold payments.

On a long-term basis, the Department must increase the percentage of properties owned by the U.S. Government to halt the continual growth of our leasehold payments. We can best do this by converting current assets to other assets of even greater utility wherever possible.

For a number of years, the Department has had an asset management program. Under the Foreign Buildings Act, we have the authority to sell overseas real estate and to use the proceeds to buy or improve other real estate and furnishings abroad.

Following Secretary Christopher's injunction to increase the diplomatic preparedness of our overseas infrastructure, we are pursuing our asset management program even more aggressively. Our goal is to maximize our overseas assets through sale, exchange, redevelopment or enhancement management.

The primary candidates for this type of approach are properties which are costly to maintain, surplus to operational needs, or have significantly appreciated in value and could be leveraged through either sale or out lease to meet other properties requirements.

In fiscal year 1995 alone, we generated $52.8 million from asset sales and acquired other properties of equivalent value, which allowed us to avoid $6,000,000 in annual lease costs.

This asset sale total for fiscal year 1995 is some 35 percent more than the two previous years combined, striking evidence of the aggressive posture we have adopted toward property sales. We anticipate that fiscal year 1996 will be another successful year as well.

Without these purchases, leasehold costs, which currently are 32 percent of our annual appropriation, will consume an increasingly large portion of our base and ultimately impair our ability to occupy and maintain existing facilities.

We must also use property sales to meet the requirements for new construction and virtually minimize the need to seek additional appropriated funds for capital projects.

For example, asset management has been essential in our ability to meet the requirements arising from the reunification of Germany and the impending relocation of the German capital from Bonn to Berlin.

We have already exchanged 162 properties in Bonn for 158 properties in Berlin, valued at approximately $192,000,000 and our current plan is to use proceeds of sale to fund construction of our new chancery in Berlin.

We have all seen GAO's most recent report on our overseas real estate program. I fully agree with the general thrust of the report's finding, since it reflects many of our existing program efforts.

However, there are several issues raised by the GAO with which I must take exception. While we are aggressive in our asset management approach, we cannot limit our focus only to the potential financial aspects of a real estate transaction.

We must weigh other equally important factors, including market conditions, political and diplomatic considerations, quality of life and operational and security concerns.

International real estate transactions involving diplomatic properties are complex and the sale of such properties may be subject to limitations set by the host country.

Acknowledgement of these factors in executing real estate transactions abroad is absolutely essential to the effective decisionmaking in the real world.

Let me close by stressing one overriding concern. We recognize that this is a period of reduced Federal expenditures, yet we are equally faced with the fact that we own only one-quarter of the facilities we need overseas and those properties are aging and in need of maintenance.

The Department is responsible for managing U.S. Government overseas property holdings in a manner which accrues maximum benefit from them.

Our strategy of making meaningful cost savings by using proceeds to reduce long-term lease costs through acquisition of other properties makes the best economic sense.

Our objective is to slow the increase in lease costs by converting less cost-effective properties into long-term assets and thereby provide the essential platform for the conduct of American foreign policy.

This is the best and only course available to continue our mission of protecting the nation's political interests, advancing our economic concerns, providing border security and assisting citizens in distress.

In this era of fiscal restraint, the reutilization of our real estate assets to acquire other properties is financially sound and will enable us to maintain the diplomatic and consular platforms which are so vital to all agencies.

Mr. Chairman, I very much appreciate the opportunity to discuss these issues with you today and would be pleased to respond to any question that you might have.

Mr. SMITH. Mr. Kennedy, thank you very much for your testimony.

[The prepared statement of Mr. Kennedy appears in the appendix.]

Ms. Williams-Bridgers, if you could.

STATEMENT OF JACQUELYN L. WILLIAMS-BRIDGERS, INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE, ARMS CONTROL AND DISARMAMENT AGENCY, UNITED STATES INFORMATION AGENCY

Ms. WILLIAMS-BRIDGERS. Mr. Chairman, thank you very much for the opportunity to appear before you today to provide the Office of Inspector General's perspectives on the Department's Office of Foreign Buildings Operations.

Our reviews of FBO have verified that FBO has made substantial progress in addressing past problems and managing its real property.

Many of the persistent deficiencies we have identified in FBO stem from systemic problems in the Department of State.

The reality is that FBO is a service organization dependent on others both inside and outside of the Department for guidance on its priorities and for the resources it needs to address those priorities.

Therefore, an approach that relates FBO to foreign policy decisions is fundamental to improving FBO's work.

There are, however, some basic longstanding concerns within FBO that must be and can be addressed, independent of improvements in the Department's overall operations.

Before I highlight areas of FBO's progress and future challenges, I would like to describe the broader context for FBO operations.

In evaluating FBO activities we cannot ignore the environment in which the office must operate. FBO's work is largely a function of the total U.S. overseas presence.

The Department of State is making good progress in establishing an overseas staffing model to be used to assess State Department's staffing requirements overseas. The OIG has been working with the Department to develop this model.

However, the Department's personnel represent only about 25 percent of total U.S. Government staffing overseas. Staffing requirements of other agencies are not included in this model.

Currently the U.S. Government as a whole does not have a good way of assessing its overseas presence and therefore does not have a collective sense of whether overseas staffing has been deployed in a way to best address our foreign policy priorities.

A necessary next step, therefore, in any evaluation of our overseas presence must be the consideration of staffing needs of all agencies in order to ensure that all U.S. Government resources are aligned with national interests.

Until this is done, we will be unable to evaluate the reasonableness of either the size or the growth of U.S. presence abroad.

Clearly, this task should not be undertaken by the Department of State alone. The Department is a landlord for almost 50 executive branch agencies whose presence continues to expand as the State Department's declines.

The reason I raise this is that the size of facilities, the need for secure areas, and tenant space requirements are directly linked to the size and composition of our overseas presence.

My office has also underscored the need for FBO to obtain more guidance from the Department's senior policymakers who stand above vested regional interests and can establish priorities across regional lines.

In response to OIG recommendations in this regard, the Department has recently instituted procedures calling for the Under Secretary for Political Affairs and the Under Secretary for Economic and Business Affairs to comment annually on plans and priorities for major construction projects, including building upgrades and renovations. This is a necessary step in the right direction.

Notwithstanding our concerns about the adequacy of policy level guidance, areas which warrant FBO's continued attention include its internal planning processes, construction oversight, property management and maintenance and repair.

The FBO has improved its processes for planning property acquisitions and programming new embassy construction projects.

The FBO has also attempted to tailor construction and renovations to post specific security needs so as to reduce the cost of security enhancements.

However, FBO's criteria for establishing priorities for funding major projects should be more transparent. We have suggested that FBO expand the participation in the refinements of these criteria to include senior policymakers in the Department, as well as increase its efforts to explain how the criteria are used.

In addition, special attention is needed to ensure that, to the extent possible, all security requirements are included in the initial scope of planned work, since changes in security-related projects during the later stages have significant impact on cost and work schedules.

The FBO's recent emphasis on rehabilitation and renovation of facilities, as mentioned by Assistant Secretary Kennedy, has been driven primarily by the condition of existing facilities acquired as a consequence of the breakup of the Soviet Union.

There were a number of compelling reasons for quickly establishing U.S. diplomatic presence in the Newly Independent States.

We have previously reported our own concerns about the use of buildings acquired at the new posts for temporary use. These posts were granted waivers for inherent security deficiencies on the basis that these facilities were intended for short-term use.

Our recent reviews have confirmed that several of these buildings are severely overcrowded and others are in unacceptable facilities and embassy staff must be relocated.

Posts have addressed or are addressing most of the readily correctable vulnerabilities identified in our security inspections.

Other problems, however, relating primarily to structural deficiencies in the buildings cannot be addressed without additional expenditures.

Although the office buildings initially acquired reportedly were the best available at the time in the NIS posts, given the poor quality of construction and maintenance, they needed significant renovations to bring them up to Department standards.

So the Department entered into an agreement with the U.S. Army Corps of Engineers. Two cost reimbursable contracts were awarded in 1992 and 1993 to renovate facilities at ten of these embassies.

However, in both of these contracts, FBO, concerned about the delays and escalating costs, ceased funding the contracts and instructed the contractor to demobilize.

Many of the problems experienced during the initial group of six embassy renovations in the NIS posts were repeated during the second phase of four renovations.

These problems included an overly ambitious construction schedule, scope of work changes after contract award which dramatically increased costs, working on occupied buildings, and the failure of the contractor in FBO and the Corps to adequately manage and oversee the project.

While some changes were made to address the earlier problems, we believe more could have been done, particularly in defining project requirements before contract award.

Our review of these projects indicates that the original contracts presented a false expectation of what it would cost to renovate the embassy facilities.

With more realistic cost information at the start, Department decisionmakers might have pursued other options in some locations, including more extensive use of modular construction.

The FBO has had good success using modular designs at some of the new posts. We believe that the Department should take full advantage of this new technology to acquire more secure and often less expensive facilities.

Property management has been a longstanding problem for the Department. Troublesome areas include timeliness of acquisition and sales decisions, the lack of comprehensive planning for overseas real estate needs and inconsistencies in the management of worldwide housing programs.

Although improved, OIG has found FBO's overseas acquisition process to still be inadequate because it did not require an economic analysis to determine whether it was more advantageous to lease or to buy a property.

The real estate division set up a new evaluation branch and hired real estate professionals who are now making more analytic decisions on which properties to sell, whether to lease or to buy, and how to prioritize real estate acquisitions.

According to FBO, oversized, expensive, under-utilized or vacant properties can be identified by housing profiles in its real estate management system. In response to our recommendation, FBO now requires and monitors periodic reports from posts.

However, we have found that the real estate management system does not adequately reflect the real property inventory.

The OIG has made many post-specific recommendations on property management and disposition overseas. Our work leads us to concur with the concept embodied in GAO's recommendation that the Secretary of State needs to establish an independent panel to make recommendations regarding the sale of excess real estate in order to reduce the current inventory and offset the cost of new acquisitions.

Professional real estate expertise should have a meaningful role in decisionmaking so that the Department can maximize its return on these assets.

An independent panel could help insofar as it would transcend the parochial post-specific interests that often dominate and distort management decisions.

It is important, however, for this panel to realize that consideration of cost factors must be balanced with the due recognition of the interplay of bilateral relations, representational concerns, the historical value of certain properties we occupy and local security conditions.

The FBO has made significant progress in addressing its maintenance and repair deficiencies, having taken steps to overcome the longstanding absence of a system to identify and reduce the backlog of maintenance and repair.

Specifically FBO previously lacked a maintenance baseline to measure progress and therefore it could not demonstrate whether the backlog had decreased as a result of improvements and increased funding.

The FBO has since developed an automated system to manage the maintenance and repair backlog. That system though is not yet complete.

The FBO has also made good progress in recent years in improving its own delivery of support services abroad. FBO now provides several maintenance assistance programs to overseas posts and has established a program to place facilities maintenance professionals at posts to supervise and manage maintenance operations.

Central to the continued progress, however, is full implementation of the automated data systems to identify and monitor the worldwide backlog of maintenance and repair deficiencies and an inventory of real property and anticipated requirements.

Without such systems and the internal control capabilities they represent, other improvements implemented to date will remain to some extent uncoordinated efforts.

This concludes my summary statement. I look forward to working with you, Mr. Chairman and the committee on these and other issues in the near future.

I would be happy to respond to any of your questions.

[The prepared statement of Ms. Williams-Bridgers appears in the appendix.]

Mr. SMITH. Thank you very much, Ms. Williams-Bridgers and we will get to that in a moment.

First we will hear from Mr. Nelson.

Mr. NELSON. Mr. Chairman, with your permission I'm going to summarize my prepared statement.

Mr. SMITH. Your full statement will be made a part of the record.

Mr. NELSON. Part of the record, that is correct, Mr. Chairman.

STATEMENT OF BENJAMIN F. NELSON, DIRECTOR, INTERNATIONAL RELATIONS AND TRADE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, UNITED STATES GENERAL ACCOUNTING OFFICE

Mr. NELSON. Mr. Chairman, members of the subcommittee, I am pleased to be here today to discuss our report on the Department of State's management of more than $10,000,000,000 in U.S.-owned real estate in over 200 locations overseas.

In light of current budget constraints, we undertook this review to see if the Department had a good process for identifying and selling excess and under-utilized real estate and efficiently using the proceeds from those sales.

Despite the fact that in the past 2 years the State Department has significantly increased the number of properties it has identified as available for disposal, our work indicates that the Department has not established an effective process for identifying and selling unneeded real estate overseas.

Decisions concerning the sale of excess and unneeded property have often been delayed for years, largely because of parochial interest among the parties involved.

As a result, the State Department has a large inventory of excess real estate that could generate substantial revenues and reduce its budget requirements.

26-802 O - 96 - 2

As of October, 1994 State had listed for potential sale over 100 properties overseas valued at approximately $467,000,000.

However, we identified other properties worth millions of dollars not on the list that appear to be excess to State's needs or that have questionable value.

Some of the properties we identified were worth millions of dollars. These include properties that have been retained at closed posts, including Zanzibar; Tanzania; and Alexandria, Egypt.

Properties that are vacant, unneeded or unsuitable for the purpose for which they were acquired, including some in Dakar, Senegal; Rabat, Morocco; and others.

High-value properties that are oversized and expensive to operate and maintain, such as the one in Hamilton, Bermuda; Buenos Aires, Argentina; Prague and Budapest.

We cannot state with any certainty the actual amount of real estate that could be sold because of weaknesses in State's identification process.

State does not have an effective system to determine whether property is excess or too expensive to operate and maintain.

State's current process for identifying and selling unneeded properties require a weighing of multiple factors presented by different groups with competing interests.

As a result, FBO and the embassies are sometimes unable to expeditiously reach agreement on properties to sell, move forward on sales, or determine the appropriate use of sales proceeds.

State officials have attributed many delays to resistance from host governments and the need to weigh this and other factors against the economic benefit of selling property. Unfortunately, resolving these considerations often delays potential sales for years, even at closed posts.

Let me cite two examples. In Zanzibar, the consulate general residence has been kept and used predominantly for recreational purposes, even though the consulate closed 17 years ago.

According to an Inspector General report, the property was used 36 nights for representational purposes and 122 nights for recreational purposes in 1994.

Renovation costs have exceeded $130,000 and maintenance and salary costs relating to the property exceeded $30,000 in 1994. Another example is the consulate general residence in Alexandria, which is valued at over a million dollars.

Mr. Chairman, it doesn't seem prudent to close a post and then continue to hold and maintain post property at government expense.

As I said earlier, some of the properties that should be considered for sale are high value and expensive to operate and maintain.

In Hamilton, Bermuda, the State owns an expensive residence known as Chelston for the consul general. In April, 1994, the post estimated that the property was worth over $12,000,000.

The 10,000-square-foot main house is part of a 14-acre beach front estate. An FBO survey in February, 1993 disclosed that the residence needed an additional $240,000 in major repairs.

Operations and maintenance costs for the residence were reported to be in excess of $100,000 annually. State says that the

Government of Bermuda has opposed the sale of this expensive residence.

Similarly Mr. Chairman, the Ambassador's residence in Buenos Aires is a 43,000-square-foot property that has been valued at up to $20,000,000 and is very expensive to operate and maintain.

The basic point is that the current process does not work very well. There are often long delays in reaching decisions and these delays have proven to be costly.

An example of a delay in reaching closure on property is the situation in Brasilia. The embassy and FBO had a standoff for over 2½ years over whether to sell vacant lots and use the proceeds to renovate a 29-unit apartment building or to sell the apartment building and other properties and use the proceeds to build residences on the vacant lot.

During this dispute, the embassy spent over $1,000,000 to lease housing while the 29 apartments remained vacant.

Additionally, we believe that the process for using and accounting for sales proceeds needs to be improved. State sold $53,000,000 in real estate during fiscal year 1995. However, it is not clear that sales proceeds were used for State's highest priority real estate needs. Embassies involved in sales are usually given first priority in using sales proceeds.

FBO believes that embassies will not cooperate in identifying properties unless they receive first consideration on the use of the proceeds.

According to FBO documents, of the $16,000,000 in fiscal year 1994 sales, $6.3 million or about 39 percent of the proceeds were designated for use in the country where the sale occurred.

During a period of constrained budgets, it is important that the State Department have an effective system to identify and sell excess or under-utilized real estate.

Because of the strong interest embassies have in retaining real estate and using the sales proceeds, external political pressures, and difficulties in resolving disputes, we believe the Secretary of State should appoint an independent panel to decide which properties should be sold.

In establishing this panel, consideration should be given to appointing representatives from State's Office of Inspector General, the Bureau of Finance and Management, as well as private sector real estate representatives with expertise in overseas property.

We believe the reason for retaining any property should be weighed against the financial interests of the State Department, as well as the U.S. Government.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you may have.

[The prepared statement of Mr. Nelson appears in the appendix.]

Mr. SMITH. Thank you very much, Mr. Nelson, for your fine statement.

Just let me begin the questioning to Secretary Kennedy. The GAO made five very specific recommendations intended to help cure some of FBO's management problems.

The State Department's January response to the draft report seemingly does not address them. I would like to walk through those five and get your impressions on what you think should be done.

Mr. KENNEDY. Please.

Mr. SMITH. First the GAO recommends that the State Department establish an independent panel to make recommendations regarding the sale of excess real estate.

The panel should include representatives from the IG's office, the Bureau of Finance and Management policy and the private sector.

Does the State Department agree with this recommendation?

Mr. KENNEDY. Mr. Chairman, we believe that we have a process in place already. We believe that we consult with all Bureaus in the Department and we consult with the Chief Financial Officer.

We receive recommendations from the Office of the Inspector General and in that context, we feel that we are already following the thrust of the GAO's recommendation.

That is, we identify properties to be sold. We consult with appropriate senior officials of the department, we receive the independent recommendations of the Inspector General and then we act.

Mr. SMITH. Let me ask our other two witnesses whether or not you feel the status quo in place is sufficient and if not, why not.

Ms. WILLIAMS-BRIDGERS. Mr. Chairman, I believe that an independent panel created at State Department to advise the Secretary on possible real property dispositions is advisable.

I think that, in concept, someone outside the Department representing more global interests—someone who represents interests beyond the regional and geographic boundaries that posts are able to offer in their perspectives—is much needed in the Department.

In terms of the recommendations that we have made for disposition of property, in fiscal years 1994 and 1995 for example, we had made recommendations about the disposition of properties in some 20 different countries.

In only four countries, some of which involved multiple properties, has FBO concurred with the recommendations that we have made.

So, there is considerable room for us to agree or agree to disagree about the disposition of properties.

With regard to composition of the panel, however, the one exception that I would take to GAO's recommendation is that I believe there is no appropriate role for the OIG to play on that panel.

I think that it would represent a compromise in our ability to provide oversight and that we should not become operational in making the final determinations about dispositions of properties.

But certainly in our role of providing recommendations to the Department, based on our post-specific findings, we think that we could be more beneficial.

Mr. SMITH. Is it likely to expedite our getting rid of these properties? I will never forget in the early 1980's, I was ranking member on the Housing Memorial Affairs for another agency, the Veteran's Affairs Committee.

It was not until there was considerable congressional interest and/or pressure that some of those properties which had very high carrying costs started to get pushed out the door and sold.

Do you think that this recommendation helps to expedite it?

Ms. WILLIAMS-BRIDGERS. I think that this recommendation certainly provides an opportunity for improvement over the current process.

It provides for more visibility about decisions that had been made whereas heretofore many of those decisions have not been very transparent.

Mr. SMITH. Mr. Nelson.

Mr. NELSON. Mr. Chairman, I believe the records show that the current process does not result in expeditious resolution of issues or disputes regarding which property should be sold and how the proceeds should be used.

We have numerous examples of where either the Inspector General or FBO has recommended a property be sold only to have those decisions delayed for years, because of resistance from the embassies.

We need a process to deal with the parochial interests that come into play in these decisions and we are convinced that an independent outside party looking to weigh all of the interests, including foreign policy considerations, as well the economic and budgetary situations is needed to help more quickly resolve some of these issues.

I cannot see where we should delay for years selling closed posts.

Mr. SMITH. You raise an interesting question. In your testimony earlier, you spoke about the 100 excess properties for potential sale with a value—according to my understanding of the most current submission to us—of $474,000,000.

Now my understanding is that those properties are on the line and can be sold when both the FBO and the foreign posts have agreed to sell.

How many properties could be added to that list, on which there is not a position by the foreign post, but because of that veto they simply are not on this list?

Mr. NELSON. Mr. Chairman, I cannot say with any certainty. We just identified properties that appeared to us, based on our work as well as the work performed by the Inspector General that some of these properties should be on the potential sales list because of their high value and the cost of maintaining them.

Mr. KENNEDY. Mr. Chairman, may I answer?

Mr. SMITH. Yes.

Mr. KENNEDY. Mr. Chairman, I do not believe that the posts exercise a veto over FBO's decisions. There is a discussion between the post and the Office of Foreign Buildings. If there is disagreement, in which the post may well be right and FBO's analysis, which is based upon a paper review in Washington, we consult the post. If FBO continues to feel that it is correct, that decision is referred to me and if necessary, I carry it to the Under Secretary for Management and then we make that decision.

So I do not believe that this process is held up. If I might just address one of the examples, which was cited by Mr. Nelson twice in his statement and that is the property in Alexandria, Egypt.

Mr. Nelson is very correct that we did close the American consulate general in Alexandria, Egypt. However, Mr. Chairman, the U.S. Government did not withdraw its entire presence from Alexandria.

The U.S. Information Agency, for which FBO is also responsible for providing properties, remained in Alexandria, Egypt and continues to maintain an American cultural center in that city.

When the State Department ceased to use the residence in question and withdrew its personnel, the property did not become vacant. That property is occupied by a U.S. Government employee, the U.S. Information Agency's Public Affairs Officer in Alexandria.

So this is not a vacant, unused property that has been left to rot. It is a property actively used by the U.S. Government and every year we are not paying rent, because that property is in full use by that officer.

This is an example where you have to look beyond just the State Department, because we provide other agencies with support. This is an example of where though the State Department closed its post, the property is in full use by another agency.

Mr. SMITH. In reading the Department's response, the Department noted that during Secretary of State or other VIP visits, the house has proven invaluable for lodging the Ambassador and others when local hotel space is unavailable.

So these are additional reasons you're mentioning today? Are we talking something different here?

Mr. KENNEDY. The GAO's report only talked about its use by the Secretary of State and State Department officers going to Alexandria, but from the day the State Department ceased to occupy the property, from the day the State Department officer moved out, the U.S. Information Officer moved into that property and the Ambassador stays in the spare bedroom when he goes up to Alexandria. It is a residence occupied by an employee of another agency.

Mr. SMITH. Let me ask you about the second GAO recommendation and your opinion on that, which is a recommendation that the FBO and the embassies report annually to the Under Secretary of Management on all properties identified as excess where FBO and the embassies have not yet agreed upon whether to sell them.

Does the State Department agree with that recommendation?

Mr. KENNEDY. Yes. Right now when there is a disagreement between FBO and a post, I take that matter up with the Under Secretary for Management periodically. So I believe we are already carrying out this recommendation.

Mr. SMITH. What about the issue of including the estimated receipts in the annual congressional presentation?

Mr. KENNEDY. In the congressional budget presentation, we advise on properties that were sold in the previous year. It is very difficult for us to give an exact figure prospectively on overseas real estate.

We have properties that we identify for sale. However, though we fully intend to sell those properties and there is no dispute, we must obtain appraisals to make sure the U.S. Government is getting the highest value.

The seller must often obtain certain permits. Similar to operations under U.S. law through our Office of Foreign Missions, a foreign government must often grant permission for us to sell as well as to buy properties.

We are very pleased to do this and in fact, in the congressional budget presentation this year at table seven of our presentation, we identified properties that we plan to sell. We would have no problem, Mr. Chairman, with continuing to do that. In fact, it is our intention to do so.

Mr. SMITH. Mr. Nelson, your report raised questions about the completeness in information submitted by the State Department on its use of proceeds generated by the sales of excess property.

Can you provide us with a specific example of what those questions we are getting at?

Mr. NELSON. Yes. Mr. Chairman, our concern was with the level of disclosure and congressional visibility over expenditures.

The fiscal year 1996 congressional budget presentation gives us an excellent example there. The presentation says $16,000,000 was received in fiscal year 1994. However, that only explains how $6,000,000 of the $16,000,000 was actually used.

In addition, there is not a detailed accounting for the proceeds from individual properties. What is given is largely an aggregate number that is an after-the-fact number.

The fiscal year 1997 presentation has a greater level of disclosure, but it still does not fully explain how the $53,000,000 from fiscal year 1995 sales will be used. It talks about $33,000,000, but does not explain the difference.

Mr. SMITH. Regrettably there is a vote out on the House floor which requires my attendance. I am also slated to speak and to open up with the debate on the Cox Amendment.

I would ask that counsel to the subcommittee, Doug Anderson, ask you some additional questions, and then submit some additional questions for the record.

I do appreciate your testimony. It is very, very helpful. We are going to go back and look back through this very carefully to see how we can work in a cooperative way to help the taxpayer get a better bang for the buck by expediting the sale of some of those excess properties.

Let me ask one question, and then I will have to leave while you are answering it. In response to your draft report, Mr. Nelson, State asserted that the Chelston compound in Bermuda could not be sold because it was a gift to the United States from the Bermuda Government, which had objected to the sale, yet your comment to that response stated that your investigation revealed that the property had previously been owned by a U.S. citizen and revealed no documentation from the Bermudian Government opposing the sale.

Now has the State Department provided you with any new evidence to support its position and perhaps Mr. Kennedy you may want to respond to this. Is this still an open issue?

I regret I am going to have to run or I will miss the vote.

Mr. NELSON. Yes, Mr. Chairman.

Our information on this issue comes from the files maintained by FBO and the documentation that we found is limited to a cable describing a conversation with a Bermuda official over lunch.

The Department may have additional documentation or data concerning the issue. However, we did not have access to that additional information.

Mr. KENNEDY. If I might address that.

Mr. ANDERSON. [presiding] Yes.

Mr. KENNEDY. I apologize for an editing error in the piece of paper that originally went out. What it should have said was that this was a gift to the U.S. Government from an American citizen and the Bermuda Government passed special legislation that permitted a non-Bermudian entity, in this case the Government of the United States, to own the property.

Because Bermuda is such a small island, the Government of Bermuda has specific legislation that limits property ownership by non-Bermudian entities to four acres.

When this was to be offered as a gift to the Department of State, we had to seek special legislation from the Bermudian Government to validate the gift.

So in that case, the Bermudian Government did not give us the property. They gave us the special legislation that enabled us to accept the property.

As to the second part of the question, which is the Bermudian Government position on this, the Premier, the Chief Government Minister of Bermuda, told President Bush in 1990, when President Bush was transiting Bermuda, that the Governor of Bermuda would not under any circumstances permit this property to be sold.

They would use zoning restrictions. They would use the legislative limitations on how much property could be owned by a non-Bermudian official. And the Premier told us, if we insisted on a sale, the value of the property would decrease by about 80 percent.

I have no interest in selling a property that has imputed highest and best use value of $12,000,000 for less than $2,000,000.

I think it is in the taxpayer's interest to hold onto it until such time when the U.S. Government could realize the full $12,000,000 and not engage in a fire sale.

That position by Premier Swan was restated as recently as 18 months ago in a conversation with our Consul General when we again were discussing the opportunity to sell it.

This property has been on FBO's sales list for some time. I would like to sell it, but I will not sell it at a fire sale.

Mr. ANDERSON. Was the opposition, as expressed to selling the property to someone other than a Bermudian? Would his concerns be addressed if the property could be sold to a resident of Bermuda?

Mr. KENNEDY. They were opposed to selling it. Period. They believe that since they passed special legislation, they had given us this permission to hold it and it was to be held by the United States.

They did not wish it sold. However, the Premier went on and said, if you choose to sell it, it will be sold. You may sell it. It could be sold under these restrictions, which would bring us less than $2,000,000 for a $12,000,000 property, which I would regard as a travesty to sell in those circumstances.

Mr. ANDERSON. I would like to get back to the list that we have heard discussed a couple of times today of the properties that you have identified for disposal, which at present I guess totals approximately $474,000,000. What does it mean when a property is placed on that list?

Does that mean that it is being actively marketed?

Mr. KENNEDY. No.

Mr. ANDERSON. How many of those properties do you expect to be sold within the next couple of years?

Mr. KENNEDY. I appreciate that question. This list is an investigatory list by FBO. This is where I think I disagree with my two distinguished colleagues.

The existence of this list is evidence that FBO is looking at properties to sell. I think we've established the fact that we are engaged in a rigorous exercise of reviewing our entire worldwide property inventory to decide what to do.

The Office of Foreign Buildings puts together a list of properties that they wish to investigate and determine whether or not it is appropriate to sell those properties.

We put together a list and consult with the regional bureaus, with the posts, and with other U.S. Government agencies to determine what we should do.

Then we review local market conditions to determine if this is the correct time to sell a property. Let me give you one example, if I might.

In the GAO report there is a criticism of the Department of State for not selling a property in Calcutta, India immediately.

At that time, the property in question was appraised on the order of $2 million to $3 million. The professionals in the FBO's real estate office realized that the Government of India was about to change its property ownership laws and liberalize them significantly.

They knew that the market was going to take off and counselled against selling that property at that time, even though it was vacant.

We subsequently sold the property 3 years later, after the law changed, for $7.7 million. Even if you assume the highest Federal funds rate, by holding onto a $2 million to $3 million property for 3 years and then selling it for $7.7 million, by taking advantage of those market conditions, as the FBO professionals do, they enabled the U.S. Government to realize an additional profit of at least $3 million to $4 million.

We also then consult with host government officials to determine whether a property can be sold for its appraisal and its highest and best use.

An example might be the property in Buenos Aires, which was referred to earlier. We put that property, the Ambassador's residence in Buenos Aires, on our list of properties to be sold.

We believed we would be able to obtain a significant value for its highest and best use which is to literally demolish the Ambassador's residence and sell the land underneath it for high-rise construction. The $20-million value of that property is not the house, but literally for the land itself.

When the Government of Argentina was approached, we were informed, as was our Under Secretary for Management and a Member of Congress who happened to be on a congressional delegation at that time, by the President of Argentina, the chairman of the Argentine Senate, the Minister of Foreign Affairs, the Minister of Culture and the mayor of Buenos Aires that we were perfectly free to sell that property, but its zoning would remain for a single-family house and we were welcome to sell it and someone could buy it as a single-family house.

However, that would in no way achieve the highest and best use we seek, which is to have the property sold to a developer who would build a high rise on it.

In those circumstances since the appropriate zoning was not available, we decided not to sell that property, simply because it would not bring the value to the American taxpayer that it ought to.

Mr. ANDERSON. Would either Ms. Williams-Bridgers or Mr. Nelson like to respond to the question regarding the list, what it means, how it is compiled, and what happens with property after it is put on the list?

Ms. WILLIAMS-BRIDGERS. I would appreciate the opportunity to respond. I would first like to respond to how the list is used, if I might.

What Mr. Kennedy has provided details on are individual cases in which the Department has engaged in discussions with post, and with host countries about the dispositions of properties.

What our work has found is that there is no comprehensive information base on which decisions can be made. So on case-by-case situations, yes, there might be progress made by the Department in disposing of property.

Arguably, however, on certain cases it has taken much too long to come to closure on the dispositions of those properties.

But, on a more global basis, what we do not know at this point in time, but what we have made some strides in developing, is the information systems that would allow us to make decisions as to where in the world, across the geographic bureaus, if you will, there are properties that might be sold.

How those moneys might be used, for example, across geographic boundary lines to acquire properties. How might decisions be made to look at the needs in one particular location versus another particular location.

Too often the decisions have rested within geographic boundaries, have rested in negotiations between FBO and the post. It has led to prolonged negotiations.

It has led to unnecessary costs for lease or alternative housing arrangements for our embassy staff, and we think the process can be done much more quickly, much more efficiently, with much more visibility, and with much more consideration about the global needs versus post specific needs.

Mr. ANDERSON. Mr. Nelson.

Mr. NELSON. I would also like to respond to your question. Our work does not indicate that the process is as rigorous as my colleague, Mr. Kennedy, suggested.

What we have seen is that the list of properties for sale develops in sort of an ad hoc manner: some coming from FBO suggestions and some from IG suggestions and special calls by FBO and in some cases by the embassy when they feel that it is in their interest to do so.

The other point of the GAO recommendation, or the GAO discussion on India, is that the Department probably should not be speculating in real estate.

Whereas the property in India happened to have increased in value, there are cases we pointed out years ago of property in places such as Tokyo that were at their peak value, but have since been revalued at a fraction of what they were valued at some years ago.

So I would just like to add a word of caution regarding speculation on property, particularly in foreign countries.

Mr. KENNEDY. May I comment briefly on the question about whether or not FBO commits to only use those proceeds of sale in the countries in which they are derived?

I think that situation is a misnomer. For example, during fiscal year 1995, where we sold some $43,000,000 worth of properties immediately, in only two cases were properties bought in the countries in which the properties had been sold.

In one case in Norway, we sold several properties, bought one in exchange and still extracted $500,000 for use elsewhere. In the case of New Zealand, we sold a property in Auckland, New Zealand, bought two properties in Wellington, New Zealand and extracted $1.3 million.

Those are the only two examples where we sold properties and used those proceeds in the country in which a property had originally been sold.

We do not tie sales to purchases. We look for the best rate of return, the best opportunities. We have lists where we have rank-ordered opportunity purchases.

We look at locations where our lease costs are highest and then try to move proceeds of sales to these countries where we have the best opportunity to reduce the cost to the taxpayer.

If you look at the fiscal year 1995 examples and the data I have just given you, I think it demonstrates pretty conclusively that the State Department does move funds around the world to meet its highest and best needs.

Mr. ANDERSON. Any comments on that, Mr. Nelson? Does that address the aspects of your report that raised those questions?

Mr. NELSON. Well, I think that if you look at the recent trend the Department has made an effort to identify high priority needs. It is still not clear though whether the proceeds are going to the highest priority needs.

Let me just give an example. Our information on this one is not complete, because we did not have access to all of the files.

But the consulate in Lyon was closed in 1992. It sold in 1995 for $613,000. FBO wanted to use the money in other places. The embassy disagreed. Our latest information suggests that they are still negotiating.

The negotiations could have been completed. Our information is the best that was available at the time that we did the report.

I think this is just one example and I do not want to focus on isolated cases, but I think that it is systematic. It is an indication of the difficulties in coming to closure on either the sale or the use of the proceeds from the property.

Mr. KENNEDY. I totally agree with my colleague that individual cases do not necessarily prove a trend, but a trend is asserted here and if I just might comment.

It is correct in fiscal year 1995 we did sell the property in Lyon. During fiscal year 1995, we sold $42.9 million worth of properties, including the Lyon property and in fiscal year 1995, we bought $45.4 million worth of properties, using some other funds that became available in the leasehold account.

We did not freeze and hold funding from the Lyon properties for use in France. We invited the embassy in Paris, as we invite every embassy in the world, to propose to us properties to be sold, but the proceeds of sales from Chaslet, which was the name of the property in Lyon, were put into the asset management pot of $43,000,000 and we then bought $45.4 million of properties. So we did not tag that property.

Mr. ANDERSON. All right. Lest you worry about not being able to get full answers on the record, we may submit some questions for you to answer in writing afterwards.

Mr. KENNEDY. We would welcome that.

Mr. ANDERSON. I have a couple more though while we have you here in person. If you could, I would like each of you to address the question of how funds from asset sales should be used.

Some believe that they should be used exclusively for capital projects, while others suggest that they can be used for basic operations and maintenance and repairs without undermining the financial security of the account.

Could each of you comment on your perspective on that issue and how those proceeds should be used?

Mr. KENNEDY. Certainly. It is the Department of State's position, including that of the Secretary of State, that asset management proceeds should be used for other capital acquisitions, whether purchases or construction.

I think I can best describe the alternative, which is to sell capital assets to pay for ongoing operations as the Pan American Airways solution.

You sell your aircraft. You sell your hotel chain. You sell your skyscraper in New York. You sell your certificates of public convenience and necessity and you will go bankrupt.

The sales of capital assets to pay ongoing operations can be found in no business textbook as a formula for a successful enterprise.

The State Department is faced with a situation where our leasehold costs overseas have already reached one-third of our budget and they are continuing to rise every year with the rates of inflation.

If we start selling our capital assets and paying ongoing expenses, we are going to quickly run out of assets. Our leasehold costs are going to continue to rise, because every property that we sell and do not replace drives up our leasehold costs and we will soon have our leasehold costs driving out our ability to maintain our properties and our ability to operate overseas.

Therefore, I think that there is an exceedingly strong economic justification for the sale of capital assets, our properties overseas, and using those assets to buy or build other properties and that achieves a savings in the leasehold costs.

Last year alone our sales of properties resulted in an immediate $6,000,000 reduction in our leasehold bill and that $6,000,000 compounds itself into the future.

Selling assets to fund ongoing operations would be a devastating blow to the State Department, to its budget, and to the services that the State Department performs abroad.

Mr. ANDERSON. Ms. Williams-Bridgers.

Ms. WILLIAMS-BRIDGERS. We have not done any work looking specifically at whether or not the proceeds from sales should be used for capital improvements versus maintenance and repair.

But I would suggest that whatever use the proceeds from the sales are applied to, that they be applied to the highest priorities. Right now we do not have a good sense of what the various priorities are. The highest priorities are for our capital improvement needs as well as for maintenance and repair.

The Department has put in place certain systems which, when fully implemented, hopefully will provide us with prioritized listings of projects, but it is most important, I think, that we address the greatest needs first.

Mr. ANDERSON. Mr. Nelson.

Mr. NELSON. Yes. Similarly, we have not taken a position on this issue and I do not believe that it was consistent with the recommendation that we made.

Our recommendation is that the proceeds should go to the highest priority needs and we have no comments on whether that should be maintenance or capital acquisition. Just to highest priority.

Mr. ANDERSON. OK. Mr. Kennedy, you stated that in 1995 the $52.8 million in proceeds from sales were used to acquire property. When then did the Department need to reprogram $30,000,000 in fiscal year 1996 funds for the purpose of acquiring property?

Mr. KENNEDY. Because we had more properties that we wished to acquire than we have asset sales available. The funds that we acquired in fiscal year 1995 were expended in fiscal year 1995 to acquire properties at that point.

We have a master list of properties overseas which we believe would be exceedingly advantageous for the U.S. Government to acquire.

We believe these properties will accrue extensive value to us in providing the safe and secure work places that the Inspector General referred to. We have need for those properties.

Second, we believe that we have assembled a list where the rate of return, i.e. the leasehold avoidance costs are significant, and therefore, we wish to seize upon these opportunities.

As both Mr. Nelson and the Inspector General referred to, we are looking for the best utilization of funds and at this moment, we see the opportunities to buy additional properties to save the U.S. Government further leasehold costs and we wish to seize this opportunity now.

That is why we have re-prioritized within the FBO budget and submitted a reprogramming letter to the Congress in order to take highest and best advantage of these opportunities.

Mr. ANDERSON. To get back to the specific recommendations in the GAO report: one of them is that the State Department create a separate account for sales proceeds as a first step toward improving internal financial controls.

Does your Department agree with that recommendation?

Mr. KENNEDY. Yes, we have requested the Chief Financial Officer to coordinate with the Office of Management and Budget and the Treasury Department to establish a Treasury fund entitled the Foreign Service Buildings Fund. The authority to establish this fund is contained in Section 9(b) of the Foreign Service Buildings Act of 1926. Future proceeds from the sale of overseas real properties will be deposited in this account and used to acquire additional properties. The next best approach to segregating proceeds would be establishment of a new point authority for real property transactions. That would then create within the Office of Foreign Buildings a separate account into which the proceeds would go and from which the proceeds would then be withdrawn to make purchases.

We have sought to implement one of these approaches for several years and we fully agree that this would create transparency in accounting.

I can produce the transparency in accounting in a manual, but the establishment of a separate Treasury fund would be advantageous and will avoid potential commingling of appropriations with proceeds of sale.

Mr. ANDERSON. That may, in part, address the remaining specific recommendation. Namely, that the State Department establish a formal process for approving and documenting the use of sale proceeds, and require that proposed uses be weighed against worldwide requirements.

Mr. KENNEDY. We do that now. We prioritize our needs right now. We have lists, as I have mentioned earlier, of locations in the world where either properties are so abysmally bad that we need to buy new facilities or where rental costs are so abysmally high that it is exceedingly advantageous to the U.S. Government to purchase properties at this time.

Mr. ANDERSON. Any response from either of our other witnesses? OK.

Ms. Williams-Bridgers, on page 14 of your statement you state that the effectiveness of the construction security accreditation program is reduced by weaknesses in the mechanism for tracking, documenting, and correcting identified security deficiencies.

Could you elaborate on that observation? Are those deficiencies due to a lack of commitment to the accreditation process?

Ms. WILLIAMS-BRIDGERS. No. We do not believe it is related to a lack of commitment on the Department's part to ensuring and certifying that security has been achieved at any of those respective posts.

What we are most concerned about there though is that there is some visible means of assuring that security standards have been adhered to.

If waivers are sought, we must have some assurances that there is no compromise of information or safety of the data or staff at post.

So what we are looking for is visibility in the process to ensure that ultimate protections of people and the facilities are in place.

Mr. ANDERSON. Mr. Kennedy.

Mr. KENNEDY. We fully support the necessity for this. We have in place in the Office of Foreign Buildings an office that is called Construction Security Management and it is staffed by security professionals.

Each item that is raised by an accreditation team is reviewed by both the Diplomatic Security Bureau and the Office of Foreign Buildings.

Then the Construction Management Division ensures that each of these items is resolved before the certificate of occupancy is signed by the Under Secretary for Management. So that program is in place.

Mr. ANDERSON. Does that program also apply to the situations, which the Inspector General mentioned, where properties that have been designated for temporary occupancy somehow shift to a permanent status?

Mr. KENNEDY. Those properties are certified at that point or waivers are granted. I fully agree with the Inspector General that there are several properties in the former Soviet Union which are unsuitable.

The two particular ones that the Office of Security Oversight has identified are Dushanbe and Bishkek. In Bishkek, it is a totally inadequate property and we are engaged in negotiations now with the contractor to construct a new facility.

It happens to be a New Jersey contractor who will provide us a modular facility. This is the same company that was very successful in building a new chancery, which was fully certified in Ashgabat.

The second facility which we also agree is totally inadequate is Dushanbe, Kyrgystan. After long negotiations with the government, we have finally identified an alternative property. It is a school and the setback entirely meets our standards. We are in the process of leasing this property.

Once we take possession of it, we will reconstruct that property using current security standards and cleared American labor for the appropriate areas. I have every confidence that because of the nature of the building and the investment that we will put into it when the Inspector General's colleagues go out there, they will find it appropriately secure.

Mr. ANDERSON. We had a bit of an exchange earlier about the Alexandria property between Mr. Nelson and Mr. Kennedy.

I was curious where the Branch Public Affairs Officer lived before the Consul General departed and moved in.

Mr. KENNEDY. In rented facilities. We only owned one residence in Alexandria, Egypt. When our consulate was closed, USIA was able to give up their lease and move into a government-owned property, thus saving a significant sum of money.

Mr. ANDERSON. Mr. Nelson.

Mr. NELSON. The only information we have is that the property is valued at over $1,000,000.

I guess it is up to the Department to decide whether retaining that property, which is valued at $1 million, outweighs potential benefits from disposing of it in light of the fact that they use it occasionally.

Mr. KENNEDY. If I just might state for the record, we do not use the property occasionally. The Ambassador visits occasionally and stays in the guest room of the residence occupied by the U.S. Information Services.

She lives there. This is her residence. There is no occasional use of it, except for occasional additional use by the Ambassador, but it is an occupied residence.

Mr. ANDERSON. Mr. Nelson, does that comport with your analysis?

Mr. NELSON. Yes. That is correct. The additional use is what I referred to.

Mr. ANDERSON. Was there ever any consideration given to purchasing the apartment or home at which the Public Affairs Officer was housed in?

Mr. KENNEDY. No, sir. When we have a property that is already on the government's roles, the cost of purchasing, in other words two appraisals, lawyers fees, transaction fees, et cetera, would outweigh any benefits of buying additional property.

We would simply attempt to utilize what we have first before acquiring additional properties.

Mr. ANDERSON. Without analyzing whether a sale would be advantageous?

Mr. KENNEDY. We looked at that situation and we determined that property values are exceedingly high in Alexandria. This would be the sole remaining U.S. Government representative there.

That officer did have requirements for representational purposes and the property did have, as Mr. Nelson pointed out, occasional additional use by the Ambassador and the Secretary of State, because Alexandria is the de facto summer capital of Egypt and if the Secretary of State happens to be in Egypt during a certain period of time, that is where he would find the Government of Egypt.

Mr. ANDERSON. As I mentioned before, we will have some additional questions that we will submit to you in writing, and we hope that you will provide us with responses that can be made part of the record.

On behalf of the chairman and the members of the subcommittee, I would like to thank you very much for being here today, presenting your testimony, and answering our questions.

On behalf of the chairman, the subcommittee will stand adjourned.

[Whereupon, at 4:11 p.m. the subcommittee was adjourned, to reconvene subject to the call of the chair.]

APPENDIX

DEPARTMENT OF STATE

STATEMENT OF
PATRICK F. KENNEDY
ASSISTANT SECRETARY FOR ADMINISTRATION

ON

THE ACQUISITION AND MAINTENANCE OF BUILDINGS ABROAD PROGRAM

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL OPERATIONS AND HUMAN RIGHTS

COMMITTEE ON INTERNATIONAL RELATIONS

U.S. HOUSE OF REPRESENTATIVES

JUNE 27, 1996

26-802 O - 96 - 3

I appreciate the opportunity to appear before you this afternoon to discuss the Department of State's stewardship of diplomatic and consular properties.

The Department's Office of Foreign Building Operations is responsible for acquisition, operation and maintenance of U.S. diplomatic facilities abroad. By ensuring that U.S. Government employees overseas work and live in safe, secure and functional facilities, we provide them an effective platform from which to promote United States interests. We are responsible for 12,000 office and residential properties needed to support more than 50 U.S. Government departments and agencies at approximately 250 embassies and consulates abroad. Some 2,792 of these properties with an estimated value of $10 billion are owned by the United States.

As stewards of this asset, we employ approximately 775 government and contract employees with a broad range of talents -- from architects and engineers, to experts in real estate, fire safety, building security and interior design. Our mission is to make prudent decisions that protect our investments and ensure taxpayer dollars are used wisely.

Mr. Chairman, we are continually examining our operations, striving to develop more cost effective means of accomplishing our work. This is being done amidst the formidable challenge of establishing secure and functional facilities within existing resource levels in the Baltics, the 12 Newly Independent States of the former Soviet Union and other regions of the world. Furthermore, we are striving to address an inventory of approximately $350 million in deferred maintenance and repair requirements at our overseas facilities.

This is a difficult challenge because it is a structural problem rather than a one-time deficit. The inventory of requirements is ever changing since, as present requirements are met, new ones appear, given the continuous aging process of our facilities. The key is to stabilize the inventory at a level where we can provide an acceptable level of efficiency in a safe and secure operating environment.

At this point, a little history might be useful. Following submission to the Congress in 1985 of the report of the Secretary of State's Advisory Panel on Overseas Security (the Inman Report) my predecessors focused on acquisition and construction as the best strategies to meet our long-term requirements. This is no longer the case. During the last four years we have had a shift in our program funding which now emphasizes maintenance and facility life extension. By focusing on life-cycle maintenance and renovation and upgrade of major building systems, we reduce the long-term need for capital construction. We are also striving to control the considerable growth of our leasehold costs by using asset sales to purchase facilities to contain the growth of these costs as well as to meet some of our capital requirements.

I am pleased with the status of our management initiatives intended to implement these objectives. Though we have by no means accomplished all our goals, we have made significant progress. To set the context, I will highlight some of our efforts to date.

Management Efforts

We are especially proud of our efforts in the area of overseas maintenance. Considerable improvement in our management of these resources led the Office of Management and Budget to remove our overseas maintenance program from their list of Federal programs with a "high risk" of management vulnerability in 1994. The General Accounting office took similar action in 1995. The Department built on several important initiatives from previous years to reach this milestone.

First, we established the global maintenance survey program to identify the condition of our overseas facilities and prioritize workload requirements. By the end of FY 1994, 179 post surveys were completed. Posts are now being re-examined on a five year cycle to ensure that our facility data is current. Surveys are supplemented, as necessary by detailed post master plans and site visits by FBO area management to validate this information. We are confident that these tools will enable us to continue to enhance the effectiveness of our management of these critical resources.

Second, the Department has increased the professionalism of maintenance at our overseas posts. In FY 1992, the Department established a facility maintenance specialist skill group within FBO and developed a plan to assign these specialists to areas with particularly complex physical plant requirements. We plan to have 138 facility managers in place by the end of FY 1996. In addition, we established a central hands-on Maintenance Assistance Center in Washington (WASHMAC) to support posts lacking technical expertise in replacement of large complex building systems.

Third, we established the Facilities Rehabilitation and Support Systems Replacement Program, which has become the cornerstone of our effort to extend the life of our facilities. Since 1991, over 100 projects at 75 posts have been identified as part of this program.

Fourth, we have developed a Facilities Projects Information System, which will consolidate all known facility requirements. This system will bring a clearer focus to the process of identifying, planning, funding and tracking facility projects.

Modular Construction

Our management initiatives extend to all facets of our building program. Several are intended to contain the cost of new construction.

For instance, in certain cases, use of U.S. factory manufactured modular structures helps contain the cost of new construction. There are many benefits to the technology: it limits on-site construction during which numerous problems can arise, particularly in remote areas where material, equipment and skilled labor are in short supply; reduces overhead for project supervision and construction security; and showcases and supports American products and technology. We have recently acquired a modular chancery in Ashgabat, Turkmenistan; housing in Tirana, Albania; and are planning to acquire a modular structure for a permanent chancery in Bishkek, Kyrgystan. We plan to refine this approach further and determine its applicability for locations where conventional construction methods are not suitable.

Construction Security

Security remains integral to our facility concerns. The Foreign Buildings Office implements security policies through many facets of its construction program. Enhanced security requirements increase the cost of any new construction or rehabilitation project. Accordingly, given the severe financial constraints we are facing, we remain committed to using cost effective means to implement these policies.

The findings of a Department of State report issued to the Congress in December 1992 provide useful guidance on this important matter. A key finding of the report was the need for the Department to move beyond the impossible and costly goal of risk avoidance used in the 1980's whereby stringent security standards were developed for worldwide application regardless of actual threat conditions. The report which validated the need for construction security concluded, however, that economies were possible in the security process. The Department has revised and refined its construction security standards to provide managers with a more practical basis for making security decisions on a project by project, threat specific basis.

Capital Program

Though the era of major capital projects is drawing to a close, there are several important building projects whose status is noteworthy.

Our most important project involves reconstruction of the New Embassy Office Building in Moscow. I am pleased to report that this project is proceeding as planned. Our goal remains to ensure the safest possible working environment for the people and information at this critical post. On May 1 we awarded a contract to Zachary Parsons Sundt of San Antonio, Texas for this important effort. Let me assure you that security and space requirements have been fully coordinated with all U.S. Government agencies with an interest in this project. Preliminary work has already begun. Accordingly, we remain confident that we can have the building completed by 1999 within the funding specifically provided by the Congress. My staff and I remain available to keep you fully apprised of the status of this important effort.

In other areas of the world, using prior year appropriations, we have over the past two years completed eleven large construction projects. These projects were initially authorized and funded under the Inman legislation and included: new chanceries in Bangkok, Bissau, Caracas, La Paz, Lima and Santiago; major rehabilitations in Hong Kong, Tel Aviv, Moscow and Port Moresby; and new annexes in Cairo and Hong Kong. We are also nearing completion of rehabilitation of chanceries in Mexico City and Tel Aviv and compounds in Kuwait (financed by a gift from the Kuwaiti Government) and Singapore (financed by proceeds of sale).

Funding Overview

Since we strive to be good stewards of public funds, the cost of our programs is always foremost in our minds.

The Foreign Buildings Program has been funded as a no-year account since passage of the Foreign Service Buildings Act in 1926. A no-year appropriation is essential to provide the necessary flexibility to maintain complex construction and major rehabilitation project schedules which routinely span several fiscal years and thereby ensure projects may be completed in a timely manner. This authority is similar to the manner in which construction accounts are funded at other U.S. Government agencies such as the General Services Administration, the Army Corps of Engineers and the Naval Facilities Command.

The Department is requesting $386 million for the Security and Maintenance of U.S. Missions Appropriation in FY 1997. This level is essentially a freeze at the FY96 program level when the one-time rescission of balances is excluded. This request is the minimum amount required to meet our basic operating requirements. I believe that this request balances the need for budgetary restraint with the ongoing requirements to manage responsibly and effectively U.S. Government real property overseas. The request includes no new budget authority for the capital program. Of the funds requested, 62% is for facility maintenance, technical support, and repairs and rehabilitation of facilities; 32% is for payments for leased property; and 6% is for administrative support. This program will enable us to focus on rehabilitation of our existing facilities, whose average age is 38 years. This aging inventory presents considerable challenges to the Department. Annual facility inspections by post staff which are supplemented by surveys performed by technical experts to identify complex requirements and potentially hazardous conditions enable us to allocate our funding to the most critical needs.

Since FY 1993, Congress has rescinded $94 million in resources available to this program, at a time when we are facing a growing list of requirements for which we lack budgetary resources. These reductions have greatly limited our flexibility to respond to unbudgeted program requirements and hindered our ability to address unmet infrastructure requirements overseas. We have had to defer essential maintenance and critical rehabilitation projects which we need to extend the life of our existing facilities and thereby avoid costly new construction. Additional cuts of this magnitude could also put at risk the safety and effectiveness of U.S. Government personnel and operations abroad.

Given these fiscal constraints, we are devoting available funding to meet the most urgent maintenance and repair requirements and fund leasehold payments. On a long-term basis, the Department must increase the percentage of properties owned by the U.S. Government to halt the considerable growth of our leasehold account. We can best do this by devoting our efforts to converting current assets to other assets of even greater utility whenever possible.

<u>Asset Management</u>

For a number of years the Department has had an asset management program. We have legislative authority under the Foreign Buildings Act to sell overseas real estate and use the proceeds to buy or improve other real estate abroad. Following Secretary Christopher's injunction to increase the diplomatic preparedness of our overseas infrastructure, the Foreign Buildings Office has pursued our asset management program even more aggressively.

Our asset management program seeks to obtain the best use of our overseas assets through sale, exchange, redevelopment or enhanced management, where appropriate. The primary candidates for this type of approach are properties which are costly to maintain; surplus to operational needs; or have significantly appreciated in value and could be leveraged through either sale or outlease to meet urgent requirements. Senior management officials here in Washington approve all actions related to the disposition of these properties. Such actions are undertaken with the full cooperation of our embassies.

Singapore is our largest asset management project. Through $66 million in property sales to date, the Department has been able to construct a new chancery, ambassador's residence, and marine security guard quarters. These projects were necessary to correct major security and operational deficiencies in our existing facilities.

In FY 1995 alone, we generated $52.8 million from asset sales to acquire other properties which allowed us to avoid up to $6.0 million in annual lease costs. The asset sale total is some 35% more than in the two previous years combined. This is striking evidence of the aggressive posture we have adopted toward property sales. We anticipate that FY 1996 will be another successful year as well.

Such purchases are critical to our plan to contain the considerable growth in our leasehold program. Without these purchases, leasehold costs, which currently are 32% of our annual appropriation, will consume an increasingly larger portion of our base, and ultimately impair our ability to maintain existing real property assets, thus damaging our ability to be the first line in the U.S.'s overall national security defense.

We also plan to use asset sales to help meet the requirements for new construction and minimize the need to seek additional appropriated funds. For example, asset management has been essential in our ability to meet the complex array of property requirements derived from the reunification of Germany. To date, the Department has exchanged 162 properties in Bonn for 158 properties in Berlin valued at approximately $192 million. We anticipate that proceeds of sale of U.S. Government owned property in Berlin, Bonn, Dusseldorf, Hamburg and Stuttgart will be used to fund construction of our new chancery in Berlin.

We have all seen GAO's most recent report on our overseas real estate program. We agree with the general thrust of the report's findings since it reflects many of our existing program efforts. However, there are several issues raised by GAO with which I must take exception.

While we are aggressive in our asset management approach, we believe that we cannot limit our focus entirely to the financial aspects of a real estate transaction. We need to consider other equally important matters including current and anticipated market conditions, political and diplomatic factors, quality of life and operational and safety concerns. International real estate transactions involving diplomatic properties are complex, and the sale of such properties may be subject to limitations set by the host country. Acknowledgement of these factors and the need for post cooperation in executing real estate transactions is not an administrative burden but absolutely essential to effective decisionmaking.

Let me close by stressing one overriding concern. We recognize that this is a period of reduced Federal expenditures, yet we are equally faced with the fact that we own only one quarter of the facilities we need overseas - and those properties are aging and in need of maintenance.

The Department is responsible for managing U.S. Government overseas property holdings in a manner which accrues maximum benefit from them. Our strategy of making meaningful cost savings by using proceeds to reduce long-term lease costs through acquisition of property makes the best economic sense.

Our objective remains to slow the increase in lease costs by converting less cost-effective properties into long-term assets and thereby provide a suitable platform for continued conduct of American foreign policy. This is the best, and only course available to continue our mission of protecting this nation's political interests, advancing our economic concerns, providing border security and assisting citizens in distress. In this era of fiscal restraint, the reutilization of our real estate assets to acquire other properties is financially sound and will enable us to maintain the diplomatic and consular platforms which are so vital to all agencies.

Mr. Chairman, I appreciate the opportunity to discuss these issues with you and would be pleased to respond to any questions that you or members of the subcommittee may have.

STATEMENT OF

JACQUELYN L. WILLIAMS-BRIDGERS
INSPECTOR GENERAL

DEPARTMENT OF STATE
ARMS CONTROL AND DISARMAMENT AGENCY
UNITED STATES INFORMATION AGENCY

BEFORE THE

COMMITTEE ON INTERNATIONAL RELATIONS
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS AND HUMAN RIGHTS
HOUSE OF REPRESENTATIVES

JUNE 27, 1996

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before this committee to provide perspectives of the Office of Inspector General on the Department's Bureau of Administration's Office of Foreign Buildings Operations (A/FBO).

The Office of Foreign Buildings Operations works in a number of important areas including:

- overseeing the construction of new U.S. missions -- such as work most recently completed in the Newly Independent States (NIS) of the former Soviet Union;

- managing a multi-million dollar pool of owned and leased housing for more than 12,000 U.S. Government employees and their families overseas;

- funding the maintenance and repair of U.S. Government facilities abroad;

- building and modifying U.S. Government facilities to exacting standards to ensure the security of U.S. personnel serving abroad; and

- managing acquisitions and dispositions of U.S. properties overseas.

Linking Policy and Resources

Before discussing the specifics of our findings and recommendations, I would like to bring a broader framework to my comments. In evaluating A/FBO, we cannot ignore the policy context within which the office must operate. A/FBO workload is largely a function of the total U.S. overseas presence. And the reality is that, while progress is being made, neither the Department of State nor the U.S. Government has an effective process for determining how many people are needed at our 260 posts abroad.

Clearly this is not exclusively a Department of State problem. The Department is landlord for almost 50 Executive Branch departments and agencies with personnel abroad. The total U.S. Government overseas presence continues to expand even as the State Department presence declines. While a National Security Decision Directive (NSDD-38) currently gives the Chief of Mission authority to approve additions or reductions in staffing, these decisions are often made in a vacuum or are budget driven. There is currently no system in place to ensure that our presence abroad reflects U.S. foreign policy priorities.

A method is needed to collectively assess the requirements of all U.S. Government agencies operating abroad to address foreign policy priorities. The OIG has been working with the Department to develop a staffing model to provide a basis for evaluating the Department's resource requirements world-wide. Such a process is essential to establish the human resource requirements to accomplish our foreign policy priorities. The overseas staffing model currently does not include other agencies' staffing requirements. The expansion of scope to include other agencies is a necessary next step to ensure that all U.S. Government resources are used in a coordinated manner to advance our national interests. Until this is done, we will be unable to evaluate either the size or the growth of the U.S. presence abroad.

The size and facility requirements which A/FBO must manage are directly linked to the size and composition of our overseas presence. An inspection by my office underscored A/FBO's need for more guidance from the Department's senior policymakers.[1] Traditionally, A/FBO has little contact above the executive director level within the regional bureaus. Decisions to undertake major construction projects would benefit from cross-regional prioritization by high-level policy officers, who stand above vested regional interests.

The Department, in response to OIG recommendations, has recently instituted procedures calling for the Under Secretary for Political Affairs and the Under Secretary for Economic, Business, and Agricultural Affairs to comment annually on plans and priorities for major construction projects, including building upgrades and renovations. This is a step in the right direction.

---

[1] *Inspection of the Bureau of Administration,* ISP\I-94-05, November 1993

MAJOR DEPARTMENT CHALLENGES AFFECTING A/FBO OPERATIONS

Management challenges in Department programs which affect A/FBO operations include:

- Correcting weaknesses in financial and information management systems;
- Strengthening internal planning processes; and
- Enhancing security of personnel, information, and facilities.

Financial and Information Management

Persistent weaknesses in the Department's financial and information management systems limit A/FBO's ability to manage its own resources and track its inventory. The Department's financial system, the Consolidated Financial Management System (CFMS), does not (1) properly account for acquisition and disposition of real estate overseas, (2) properly record construction costs, or (3) automatically depreciate real estate. It also only accounts for real estate costs incurred since 1991, the year CFMS replaced the previous financial system.

A/FBO's primary information management system for monitoring the inventory of overseas property is the Real Estate Management System (REMS), developed more than a decade ago. Although REMS contains considerable financial information, it was not designed to serve financial management purposes. The data it contains is either incomplete or presented in a manner not useful for decisionmaking or for the preparation of financial statements. GAO has also identified deficiencies in the REMS system. For example, REMS did not retain historical data important for trends analysis and monitoring of compliance improvements with the housing space standards.[2]

As GAO has also reported, until the Department identifies the subsidiary systems to be integrated with its new financial management system, current weaknesses in the Department's financial reporting will not be corrected. The Department's initial strategy to correct these weaknesses was to fully develop a worldwide integrated financial management system. Although integration remains a primary objective, the initial strategy has been significantly scaled back. The OIG will continue to review the Department's efforts and progress to achieve a financial management system that will ensure accurate and useful financial information.

---

[2] *Additional Actions Needed to Improve Overseas Real Property Management*, GAO/NSIAD-95-128, May 1995.

Internal Planning Processes

A/FBO internal planning processes for funding projects need improvement. While A/FBO managers are moving to correct deficiencies, our inspections have identified areas that would benefit from special attention.

First, A/FBO's criteria for establishing priorities for funding major projects should be more transparent. The existing criteria are a combination of objective and subjective factors including foreign policy considerations, life/safety factors, quality of existing facilities, budget constraints, and potential for successful execution. The criteria also include calculations of present value as well as judgments about security. Some Department senior officials outside A/FBO disagree with the criteria, which they deem to be arbitrary. We have suggested that A/FBO expand participation in the refinement of the criteria to senior policymakers in the Department.

Second, we see a need for better planning during the definition of projects. Changes in the scope of projects after a budget has been established frequently result in an inability to complete the project on time and within budget. Particular attention is needed to ensure that to the extent possible, security requirements are included at the outset since changes in security-related projects during the later stages have significant impact on cost and work schedules.

A/FBO has improved acquisition planning through several new initiatives. A Planning and Program Division has been established to track building needs. In addition, A/FBO has developed a five-year facilities requirements plan that addresses the programming and funding of new embassy construction projects. The planning process, however, does not yet identify needs for residential, office, and warehouse space. As a result of our audit work in this area, A/FBO has implemented a ten-year priority listing of all types of real property needs.

Enhancing Security

The Department continues to face significant challenges in balancing resource availability with security requirements. It is imperative for the Department to design its security programs to meet specific post vulnerabilities rather than, as sometimes in the past, to rely on more general criteria, such as worldwide security standards. This past practice resulted in increased costs to the U.S. Government. A/FBO's shift to building to specific post security needs should translate into significant dollar savings.

OIG FINDINGS ON MAJOR A/FBO RESPONSIBILITIES

I have briefly outlined several systemic problems in the Department that affect A/FBO operations. I would like to turn now to our findings on programs for which A/FBO has primary responsibility: (1) construction oversight; (2) management of property; (3) maintenance and repair of U.S. Government facilities overseas; and (4) construction security.

Construction Oversight

New construction of major embassy buildings overseas peaked in the late 1980s and early 1990s. The Omnibus Diplomatic Security and Antiterrorism Act of 1986 (P.L. 99-399) emphasized new construction to improve the security of U.S. diplomatic facilities at high-threat posts. Since 1986, A/FBO has completed about 40 capital construction projects, including 15 in the peak period of fiscal years 1990 and 1991. In FY 1996, by contrast, A/FBO did not request funds for any new projects, only for work initiated in prior years. Current plans call for funding ongoing chancery projects in Singapore and Ottawa, with estimated completion dates of November 1996 and May 1999, respectively. Limited funds will be obligated for construction in other locations, including Berlin and Kampala. In addition, $18 million has been earmarked for a major renovation for the chancery in Hanoi. Our 1996 audit work plan includes a followup to an earlier OIG review of A/FBO's construction management activities.

Rehabilitation and Renovation

The recent emphasis by A/FBO on capital improvements, largely driven by the break up of the Soviet Union, has been the rehabilitation and renovation of existing facilities. Properties acquired to accommodate new U.S. missions have required considerable upgrading to meet minimum U.S. standards. This initiative has been undertaken with limited new Department funds. Since FY 1992, the Department has provided $198.2 million to support new post openings in the former Soviet Union and in Eastern Europe. The bulk of these funds has come from reprogramming unobligated A/FBO balances from prior years. The Department is continuing to acquire and renovate office and residential facilities to accommodate new posts in that part of the world, including Bishkek, Kyrgyzstan; Bratislava, Slovak Republic; Ljubljana, Slovenia; Skopje, Macedonia; Tirana, Albania; and Vladivostok, Russia. In addition, the Department estimates that about $12 million will be needed to cover the costs of future projects in Chisinau, Moldova, and Dushanbe, Tajikistan.

Unanticipated Problems

Buildings were initially acquired at the new posts for temporary use to accommodate small staffs. Because of their intended short-term nature, posts in the former Soviet Union were granted waivers for inherent security deficiencies. Over time, however, the status of these facilities became less clear and given the funds already spent on their renovation, it is less likely that more permanent facilities will be sought in the foreseeable future.

The apparent shift from temporary to permanent use of these facilities has been an area of concern to the OIG. Our recent reviews have confirmed that several of the new buildings are severely overcrowded; some are deficient in security measures.[3] In Kiev, Ukraine, for example, our embassy experienced a tremendous increase in staff. Despite efforts to alleviate overcrowding by moving employees of the U.S. Agency for International Development, the U.S. Information Service, the U.S. Foreign Commercial Service, and the Peace Corps out of the building, the chancery is still too small to house remaining mission personnel. In Almaty, Kazakstan, dynamic growth has already made the newly renovated chancery building obsolete.

Embassies Bishkek, Kyrgyzstan, and Dushanbe, Tajikistan, are in unacceptable facilities and must be relocated. This is especially true for Embassy Dushanbe which is located in a hotel directly above the Russian Embassy. The chancery buildings in embassies in Estonia and Latvia are located directly on the street or with minimal set-back without even a fence for protection. Extensive structural and security renovations are also required at Embassy Tashkent, Uzbekistan. Posts have addressed or are addressing most of the readily correctable vulnerabilities identified in our security oversight inspections. Other problems, however, relating primarily to structural deficiencies of the buildings themselves, cannot be addressed without major additional expenditures.

Renovations are costly

Although the office buildings acquired reportedly were the best available at the time, given the poor quality of Soviet construction they needed significant renovations to bring them up to Department standards. The renovations came at a time when A/FBO staff resources were already heavily committed. As a result, the Department entered into an agreement with the U.S. Army Corps of Engineers to assist in the program. The Department funded and directed the overall effort while the Corps of Engineers handled contract solicitation and award as well as the on-site management of the work. In a

---

[3] *(a) Inspection of Embassy Kiev, Ukraine*, ISP/I-94-47, September 1994; (b) *Followup Review of the Inspection of Embassy Kiev, Ukraine*, ISP/S-96-11; (c) *Office of Security Oversight Inspection of Embassy Almaty, Kazakstan*, OSO/I-96-04, November 1995; (d) *Inspection of Embassy Bishkek, Kyrgyzstan*, OSO/I-96-02, October 1995; (e) *Inspection of Embassy Tashkent, Uzbekistan*, OSO/I-96-15, March 1996.

collaborative effort between A/FBO and the Corps of Engineers, cost-reimbursable contracts were awarded in September 1992 and in June 1993 to renovate facilities at 10 of the new U.S. embassies at a cost of $23.9 million and $20.4 million, respectively.

OIG reported on the results of the 1992 contract involving renovations at six of the ten embassies in Moldova, the Ukraine, Belarus, Latvia, Estonia, and Lithuania.[4] In December 1993 (about six months behind schedule), A/FBO, concerned by the delays and escalating costs, ceased funding the contract and the contractor was instructed to demobilize. The final cost of the contract was about $43.3 million; additional A/FBO costs to complete the six embassy projects were at least $1.4 million. The Corps of Engineers costs were an additional $5.2 million.

We concluded that schedule slippage and increased costs of the September 1992 contract were primarily the result of (1) overly ambitious construction schedules; (2) Department-directed scope of work changes after contract award; (3) the Department's decision to maintain embassy operations in the buildings during renovations; (4) the contractor's failure to adequately staff and provide materials to the work sites and to provide acceptable cost and schedule data, and (5) A/FBO and Corps of Engineers problems in managing the project.

Our review of the June 1993 contract involving the remaining four embassies in Kazakstan, Azerbaijan, Georgia, and Armenia is nearing completion. Preliminary results from this examination show that many of the problems experienced during the initial group of renovations, also contributed to the delays and cost increases during the second phase. While some changes were made to address the earlier problems, we believe more could have been done, particularly in defining project requirements before contract award. In November 1994, eight months past the original contract completion date, A/FBO -- as it did on the earlier contract -- lost confidence in the contractor's ability to complete the work and, under terms of the contract, cut off funding. According to Corps of Engineers information, contract costs are expected to reach $63.3 million; A/FBO incurred additional costs of about $4.3 million to complete the unfinished work. Corps of Engineers contract management costs were about $6 million.

Our review of these projects indicates that the original contracts presented a false expectation of what it would cost to renovate the embassy facilities. With more realistic cost information at the start, Department decision-makers might have pursued other options in some locations, including more extensive use of modular construction.

Success with modular designs

---

[4] *Special Review of the Department's Embassy Renovation Program in the Newly Independent States*, SORT-95-01, November 1994.

A/FBO has had good success using modular designs at some of the new posts. This year the U.S. mission in Turkmenistan moved into a $12 million prefabricated, modular chancery. Also in Turkmenistan, a $4 million modular housing project encompassing a Chief of Mission residence and nine townhouses is located on a 16-acre compound. Both projects are a good advertisement for American architectural design and construction. Likewise, due to the unavailability of leased housing at Embassy Tirana, modular housing units have been constructed for embassy personnel. A/FBO plans call for additional modular housing in Tirana, and modular facilities may also be used for office and residential space at other U.S. embassies in the former Soviet Union, including Bishkek, Kyrgyzstan; Dushanbe, Tajikistan; Chisinau, Moldova; and Tashkent, Uzbekistan. Modular facilities should be considered for other parts of the world as well. For example, OIG inspectors recommended the use of modular technology in Asmara, Eritrea. Based on these promising initiatives, we believe that the Department should take full advantage of this new technology to acquire secure and often less expensive facilities.

Property Management

Property management has been a long-standing problem for the Department. Troublesome areas include timeliness of acquisition and sale decisions, the lack of comprehensive planning for overseas real estate needs, and inconsistencies in the management of the worldwide housing program.

<u>Acquisition and Sale of Overseas Property</u>

Acquisition and disposition of overseas properties have been hampered by bureaucratic politics and slow decisions. Purchase and sale of properties are often not completed in a timely manner, and economic benefits are reduced or delayed. In 1990, the OIG recommended that the embassy in Kathmandu, Nepal review the usage of real property of significant value.[5] The Department did not complete the usage study of the properties until 1993, and the present value analysis is still being conducted. In 1994, the OIG recommended that some of the property in Kathmandu be sold.[6] As of this time, the properties have not been sold.

In London, sale of a government-owned apartment building was delayed for two years while apartment units remained vacant. The post leased alternative residences at a cost of about $320,000 for that period.

More recently, our inspectors found that a thirty-six unit, government-owned

---

[5] *Inspection of Embassy Kathmandu, Nepal*, ISP/I-90-25, March 1990

[6] *Inspection of Embassy Kathmandu, Nepal*, ISP/I-94-36, June 1994

apartment complex in Brasilia has been largely unoccupied since 1992, because A/FBO and the post could not agree on a way to resolve the building's safety and environmental problems. After three years of discussion, A/FBO accepted the post recommendation that the building should be sold and recently completed an appraisal of the complex. During that time, alternate housing was leased for U.S. Government personnel, while the apartment building, valued at approximately $ 4.5 million, stood vacant.

Also in Brazil, excess U.S. Government-owned property in Belem has stood vacant since July 1994 at a cost of $4,000 per month for 24-hour guard service and routine maintenance. OIG recommended A/FBO dispose of the property without further delay.[7] Recently, A/FBO informally advised us that since no buyer could be found, an arrangement will be established for the U.S. consular agency to share the building with a privately-funded Brazilian-American foundation. The foundation will be responsible for maintenance of the building.

In our 1992 audit on acquisition and disposition of real estate overseas, OIG found A/FBO's overseas acquisition process to be inadequate because it did not require an economic analysis to determine whether it was advantageous to lease or buy a property.[8] Some economic analyses were done at the discretion of A/FBO staff, however, the analyses did not consider all relevant costs. A/FBO's Real Estate Division developed a complete present value analysis in response to this finding. Additionally, the Real Estate Division set up a new evaluation branch and hired real estate professionals who are now using sophisticated mathematical techniques to calculate both present value and internal rate of return. These calculations are used to determine a proposed project's worth and to make decisions on which properties to sell, whether to lease or buy, and how to prioritize proposed real estate acquisitions.

Lack of a Comprehensive System for Surplus Properties

OIG also determined that A/FBO had no comprehensive system in place for identifying surplus property overseas. Since 1990, A/FBO has targeted such property for its asset management program. Proceeds of sales are used to acquire or build other facilities. This effort was aimed primarily at posts having high-value property that could be sold to raise funds. Although posts were required to conduct annual property surveys to identify properties for sale, A/FBO was not monitoring or requesting these reviews. Similarly, real property surveys and systematic identification of excess facilities were not routinely required. Because A/FBO lacked sufficient resources to perform a thorough review of all underused properties in order to determine if such properties should be

---

[7] *Inspection of Embassy Brasilia, Brazil and Constituent Posts*, ISP/I-96-08, February 1996

[8] *Acquisition and Disposition of Real Estate Overseas*, 2-PP-002, March 1992.

sold or leased, it decided, and we agreed, to require periodic reports from posts to A/FBO. This process was formalized in the recent revisions to the Foreign Affairs Manual (6 FAM 790).

According to A/FBO, oversized, expensive, underutilized or vacant properties can be identified by the REMS and post housing profiles. Our auditors found, however, that the REMS does not adequately reflect the real property inventory. Our 1992 report on acquisition and disposition of real estate overseas showed that values were significantly misstated because costs were sometimes omitted and were sometimes duplicated when data was entered into the system. For example, the acquisition cost for land was recorded for both the land and the building. In our ongoing housing standards review, we found that REMS sometimes contained inaccurate information. The square footage of some residences was inaccurate as in Copenhagen, where a furnished basement had not been counted and the residence's size was under reported by about 600 square feet. A/FBO officials acknowledge these problems and are working towards redesigning REMS in order to improve its usefulness.

The leasehold account for rented properties is an especially difficult part of the budget to control because of sharply higher costs in the former communist countries and inflationary pressures combined with unfavorable currency fluctuations in some countries. To offset these increases, additional funds for the purchase of residences and facilities will be needed. One potential source of such funds is increased sales of unneeded properties. However, as I have noted, the asset management program and the sale of excess and underused properties are hampered by the lack of a comprehensive system identifying both the properties that are candidates for sale and those representing the best value. In addition, the process needs to be changed to ensure rational decision-making, particularly where post personnel are reluctant to dispose of even marginally useful properties unless they can be assured that at least a portion of the proceeds will be retained by the post.

OIG has made many post-specific recommendations on property management overseas. For example, we have reviewed recreational housing issues at overseas posts. In 1993, OIG recommended that Embassy Bucharest terminate a lease on a mountain villa used as a respite for staff due to the increase in availability of such properties from private owners.[9] The Embassy subsequently allowed the lease on the property to lapse. In May 1995, OIG recommended that the Department weigh the merits of retaining the guest house in Zanzibar against other priorities, with a view to instructing the embassy to dispose of the house as soon as practicable. In the interim, the OIG recommended that

---

[9] *Inspection of Embassy Bucharest, Romania*, ISP/94-19, March 1994

user fees be increased for American employees using the house in order to recover a greater portion of U.S. Government costs, and the post complied.[10] The Department has argued that significant bilateral political considerations call for the retention of a U.S. Government presence in Zanzibar.

OIG has also found some principal officers' residences to be excessive. In 1993, OIG stated that the principal officer's residence in Bermuda was ostentatious and expensive to maintain, and recommended it be sold[11]. The Department has opposed the sale by citing opposition in Bermuda as well as legal questions concerning our free title to this property. In Buenos Aires, OIG noted that although the Department has decided to retain the ambassador's residence, OIG doubts the high maintenance can be justified indefinitely in these times of shrinking budgets.[12] However, the Department reports that the Argentine Government has asked the U.S. to retain the property as a national landmark.

For these reasons, I endorse the concept behind GAO's recent recommendation for an independent panel, appointed by the Secretary of State, to make recommendations regarding the sale of excess real estate overseas.[13] According to FBO, the Department currently has 117 properties overseas identified for disposition.

As we have found, economic analysis is only one factor in such decisions, and is often outweighed by other factors such as the opinion of the ambassador, the views of the host country, the perceived need on the part of the embassy staff to replace property to be sold, and other considerations external to the Department. A process must be established in which professional real estate expertise can play a meaningful role in the decision-making so that the Department can maximize its return on these assets. An independent panel is important insofar as it would transcend the post-specific interests that often dominate and distort management decisions and raise the level of interest in proposed property transactions in the Department. It is equally important, however, for this panel to realize that consideration of purely cost factors must be balanced with due recognition of the interplay of bilateral relations, representational concerns, and the historical value of certain properties we occupy.

---

[10] *Inspection of Embassy Dar es Salaam, Tanzania*, ISP/I-95-30, May 1995

[11] *Inspection of Embassy Hamilton, Bermuda*, ISP/I-93-42, September 1993

[12] *Inspection of Embassy Buenos Aires, Argentina*, ISP/I-95-50, September 1995.

[13] *Millions of Dollars Could be Generated by Selling Unneeded Real Estate,* GAO/NSIAD-96-36, April 1996.

Overseas Housing Program

An OIG review of A/FBO's overseas housing program is nearing completion. The program is intended to provide housing that adequately meets personal and professional requirements of American employees at the most advantageous cost to the U.S. Government. In 1979, Congress mandated the establishment of an interagency housing policy to ensure uniformity and equity in providing housing benefits to employees of all Federal agencies. A/FBO was given primary responsibility for managing the program. Compliance with standards has improved since 1989 when GAO found that one in three residences exceeded space standards. Preliminary results from our on-going review at nine posts found that only one in five residences exceeded the space standards for current occupants. Some oversized residences under long-term leases are less costly than residences that are within the space standards and should be retained. This is particularly true in developing countries where absentee landlords of larger properties welcome the protection provided to their properties by U.S. embassy occupancy and make it attractive for the U.S. to lease these properties. Conversely, owners of smaller units, which are often new apartment buildings, are looking for a quick recovery of their investment and charge higher rates per square foot.

We also found that A/FBO was either not aware of or was not using available information to ensure that government-owned residences were occupied before other residences were leased. For example, post housing boards in London and Santiago allowed government-owned residences to remain vacant because the board members believed these residences were unacceptable. These residences were subsequently sold.

We confirmed that some posts had used A/FBO's new housing profile process to identify and dispose of oversized properties. For example, Copenhagen sold three large, expensive houses that did not fit its housing profile, and Embassy Oslo has disposed of a similar residence. Embassy London has also identified residences that will be sold in the near future.

Maintenance and Repair

A/FBO's major overseas maintenance programs are estimated to cost about $158 million in FY 1996. The rehabilitation and maintenance of real property overseas has been a material weakness reported by the Department under the Federal Managers' Financial Integrity Act since 1988 and was an OMB high risk area of management vulnerability from 1990 to 1993. A/FBO manages over 2,700 U.S. Government-owned and long-term leased facilities abroad. Rehabilitation and maintenance of these properties, as noted by OMB, has been characterized by deterioration of an aging inventory of buildings and support systems.

In 1990, GAO reported that the Department (1) lacked complete information on the condition of its facilities, (2) did not systematically manage its operations, and (3) did not adequately oversee use of its maintenance resources. These problems were caused by a lack of (1) professional expertise at post, (2) a systematic process to identify and prioritize needed repairs and estimate their costs, and (3) adequate funding. In our 1993 audit on maintenance and repair of buildings overseas, we found these problems continued to exist.[14]

The audit verified that all eight posts visited improperly used some routine maintenance and repair funds on projects that should have been paid for from other accounts. We also found that A/FBO allocated these funds based on the prior year's level and not on the basis of actual need. As a result of our audit work, A/FBO developed a statistical model for each bureau to identify allocation factors and improved guidance to posts in order to better service routine maintenance and repair requirements.

Our report found that, although A/FBO had made progress in addressing its maintenance and repair deficiencies, it continued to lack a system to identify, quantify, and reduce the backlog of maintenance and repair. Specifically, A/FBO had not established a maintenance baseline to measure progress and, therefore, it could not demonstrate whether the backlog had decreased as a result of improvements and increased funding.

Since our September 1993 audit report was issued, A/FBO's efforts have resulted in OMB removing maintenance and repair from the list of high risk areas. A/FBO has developed an automated system to manage the maintenance and repair backlog. Although not yet fully implemented, this system is planned to track maintenance and repair projects and to establish a baseline for acceptable maintenance in order to improve the planning, monitoring, and allocation of maintenance and repair funds among posts.

A/FBO has also made great progress in recent years in improving its delivery of support services abroad. A/FBO now provides several maintenance assistance programs to overseas posts. These include the Washington Maintenance Assistance Center, a contractor that provides emergency responses, preventive maintenance, training for Foreign Service national employees, and minor renovations and rehabilitation. A/FBO performs fire and safety inspections, installs fire alarm and fire suppression systems, and provides a variety of technical assistance programs for roof, elevator, and generator maintenance. A/FBO also provides a Global Condition Survey program to systematically evaluate the conditions of overseas properties, a Buildings Commissionings program to develop comprehensive maintenance plans for new and rehabilitated office buildings, and

---

[14] *Maintenance and Repair of Buildings Overseas,* 3-PP-014, September 1993.

a Facilities Evaluation Assistance program to provide specialized assistance to small posts. In order to improve capabilities overseas, A/FBO established a program to place facilities maintenance professionals at posts to supervise and manage maintenance operations.

Recent OIG inspections of selected posts also cite maintenance and repair issues. OIG has made recent recommendations to more effectively manage maintenance and repair operations in China, Jamaica, El Salvador, Madagascar, Peru and Chile.[15] These recommendations included issues such as implementing a maintenance and repair program in accordance with A/FBO guidelines, augmenting in-house maintenance staff, and coordinating maintenance services. The posts have reported actions have been taken to implement these recommendations.

Construction Security

Congress has established a certification mechanism to ensure that security policies and standards are implemented and that construction security is properly maintained. In 1992 our review found that previously identified inefficiencies in construction certification procedures had been corrected.[16]

A recently completed OIG review has found that the Department's construction security accreditation program, designed to provide reasonable assurance that completed projects adhere to security plans and are free from technical penetrations, is generally operating as intended. However, the effectiveness of the program is reduced by weaknesses in the mechanism for tracking, documenting, and correcting identified security deficiencies. The Department agreed to strengthen the process by improving the coordination between the Bureau of Diplomatic Security and A/FBO and to formally document security deficiencies so that these vulnerabilities can be tracked and corrected.

In 1992, OIG also reviewed the effectiveness and efficiency of the construction site security program.[17] It was found to be generally effective in reducing the risk of hostile intelligence penetrations during construction. Program costs were high, however, and recommendations were made, and subsequently implemented by A/FBO, to make the program more efficient. Recent work has confirmed that this program remains an effective tool for protecting security construction projects.

---

[15] Post Inspections ISP/I-94-36, ISP/I-95-23, ISP/I-95-27, ISP/I-95-31, ISP/I-95-45 and ISP/I-95-27.

[16] *Audit of Construction Security Certification*, OSO/A-92-15, March 1992

[17] *Audit of On-site Construction Security*, OSO/A-93-03, December 1992

While we have not conducted a specific review of A/FBO's management of security upgrade projects, this program has been included in the scope of the individual post reviews I have previously described. Many upgrade projects are initiated in response to security vulnerabilities identified in OIG security inspections. In general, our inspectors have found A/FBO to be responsive to the need for corrective actions in areas concerning security.

Recent inspections identified problems in the coordination of security related aspects of facility renovations in the newly independent states of the former Soviet Union. As noted previously, these difficulties were in part due to ambitious construction schedules and the unique situation where the Department funded and directed the overall effort while the Corps of Engineers handled contract solicitation and award as well as the on-site management of the work.

FUTURE CHALLENGES

Looking to the future, the Department is undertaking two major construction projects, one in progress, the other at an early stage. The construction of new U.S. diplomatic facilities in Moscow and the move of the U.S. embassy from Bonn to Berlin will continue to occupy much of the Department's attention in the months ahead. My office has followed closely the Moscow project, and an inspection team has just returned from Germany, where part of its assignment was to take a close look at the move of our embassy from Bonn to Berlin.

Moscow

Even though the Moscow building is not an A/FBO project, I could not discuss construction and property security issues without briefly mentioning this initiative. Recognizing the need for a central point within the Department to plan and coordinate all aspects of construction of a secure facility to replace our compromised building in Moscow, the Under Secretary for Management approved the establishment of the Moscow Embassy Buildings Control Office (MEBCO). From 1989 until October 1994, MEBCO was engaged in studying the best approach for constructing a secure chancery in Moscow. MEBCO awarded a $144,505,938 contract in May 1996, for construction to be completed in the fall of 1999.

MEBCO incorporates all the basic disciplines needed to design and build the new chancery, including representatives from A/FBO, the Department's Diplomatic Security Bureau, and the intelligence community. By using such a supra-management organization, the Department seeks to avoid the problems which usually accompany dispersed responsibility and to ensure that the project is completed on schedule, within budget, and in a secure manner. An OIG team continues to monitor project development. The team toured the existing chancery in August 1995 and observed work on the embassy annex and talked with post officials about various aspects of the project. Over the past several months, the team has reviewed the final design submission, the request for proposal, and other documents relating to the award of the construction contract. In October, the team will again visit Moscow to review the project to date, specifically secure storage and contractor progress at the construction site.

Berlin

The Federal Republic of Germany's decision to transfer its capital to Berlin required the Department and A/FBO to intensify planning for the eventual move of the U.S. Embassy from Bonn. The project will be a costly undertaking involving the design and construction of a new chancery office building and the acquisition and renovation of over 150 residences and ancillary facilities. Under current plans, all U.S. Government-owned property in Bonn will be traded to the German Government or sold and the property and proceeds of sale will be used for the move to Berlin. Plans also call for Frankfurt to become the consular hub in Germany and the center for all U.S. Government regional operations. Negotiations are ongoing for a new office building in Frankfurt and existing U.S. Government-owned housing will be renovated. The goal is to complete the relocation by the year 2000.

To date, much of the activity surrounding the embassy move has centered on site selection, disposition of properties in Bonn, acquisition of properties in Berlin, and design selection. The new chancery will be located on the site of the pre-World War II U.S. embassy near the Brandenburg Gate and will accommodate about 380 mission employees. In 1995, the Department held a competition to select the project design and architect, and the winner was announced on June 5, 1996. The cost of the design is estimated at $7.6 million. A/FBO believes that construction could begin as early as January 1997 and be completed in December 1999. Chancery construction is currently estimated at $117 million.

The Berlin project will be one of the largest construction and renovation projects undertaken by the Department and A/FBO and probably one of the most expensive. A joint inspection-audit team has just returned from a review of the operations of our embassy in Germany and is also assessing the scope of future OIG work relating to the move. Our team found serious deficiencies with renovations to Berlin housing, contractor performance, and contract specifications, and made several recommendations to the embassy which required immediate action. We are committed to following the progress of this important undertaking as the project moves forward.

SUMMARY

Mr. Chairman, A/FBO should not, but currently does, operate in a vacuum. Many of the deficiencies we have identified in A/FBO are linked to systemic problems in the Department of State. The reality is that A/FBO is a service organization dependent on others both inside and outside the Department of State for guidance on its priorities and for the resources to advance those priorities.

Nonetheless, there are some fundamental long-standing problems in A/FBO that must be, and can be, addressed independent of necessary improvements in the Department's overall operations. Let me briefly summarize these A/FBO-specific problems:

Internal Planning

A/FBO's criteria for establishing priorities for funding major projects should be more transparent. We have suggested that A/FBO expand participation in the refinement of the criteria to senior policymakers in the Department. Particular attention is needed to ensure that all security requirements are included in the initial scope of planned work since changes in security-related projects during the later stages have significant impact on cost and work schedules.

A/FBO has improved its acquisition planning process, including a five-year facilities requirements plan that addresses the programming and funding of new embassy construction projects. This planning process, however, does not yet identify needs for residential, office or warehouse space. As a result of OIG work, A/FBO has implemented a ten-year prioritized acquisition list for all types of real property needs.

Construction Oversight

There were a number of compelling reasons for quickly establishing a diplomatic presence in the Newly Independent States of the former Soviet Union. However, significant cost and security consequences must be acknowledged. For example, past renovation projects have suffered from: overly ambitious construction schedules; Department directed scope of work changes after the contract award; maintaining embassy operations during renovation; problems with the contractor's use of staff and materials; and A/FBO and Corps of Engineer problems in managing the project.

A/FBO has not readily applied all lessons learned from one project to the next--resulting in delays and cost increases in the second phase of NIS post renovations. We believe more could have been done, particularly in defining project requirements before the contract award.

Based on the promising initiatives using modular facilities at some new posts, we believe that the Department should take full advantage of this type of structure to acquire secure, but less expensive facilities.

Property Management

OIG has found that A/FBO's processes for the disposition of overseas property are deficient. A/FBO has no comprehensive system in place to identify surplus property. The potential economic benefits of properties identified for sale are often lost, reduced or deferred by a variety of factors including post influence, host country views, the perception at overseas posts that sale proceeds should be used to replace the property sold, and other considerations external to the Department.

I endorse the concept behind GAO's recent recommendation for an independent panel, appointed by the Secretary of State, to make recommendations regarding the sale of excess real estate overseas. This will facilitate the reduction of the disposable property inventory and help the Department maximize the economic benefits from the sale of these properties. Decisionmaking on asset management must balance cost considerations with due recognition of other factors such as the interplay of bilateral relations, representational interests, and the historical value of certain properties we occupy.

Housing Program

Preliminary results from our on-going review of the A/FBO housing program at nine posts found that one in five residences exceeded the space standards for current occupants; however, this was an improvement since a 1989 GAO report found that one in three residences were over standard. Moveover, our early finding indicated that some oversized residences on long-term leases are less costly than residences that are within the space standards and should be retained.

Our review also found that two of the nine posts did use the new housing profile process to identify and dispose of oversized properties. We expect our work to be completed by September 1996.

Maintenance and Repair

Although OIG has found problems in the repair and maintenance of properties overseas in the past, A/FBO has made great strides in recent years in improving its delivery of support services abroad, now providing several maintenance assistance programs to overseas posts. Also, A/FBO has developed an automated system to manage the maintenance and repair backlog. Although not yet fully implemented, this system is planned to track maintenance and repair projects and to establish a baseline for acceptable maintenance in order to improve A/FBO's operations in this area. Since

OIG's 1993 audit report on maintenance and repair of buildings overseas was issued, A/FBO's efforts have resulted in OMB removing maintenance and repair from the list of high risk areas in the Department.

Construction Security

While we have not conducted a specific review of A/FBO's management of security upgrade projects, this program has been included in the scope of the individual post reviews I have previously described. Many upgrade projects are initiated in response to security vulnerabilities identified in OIG security inspections. In general, our inspectors have found A/FBO to be responsive to the need for corrective actions in areas concerning security.

There were problems in the coordination of security-related aspects of facility renovations in the former Soviet Union. These difficulties were due, in part, to extremely tight time frames and the unique situation where the Department funded and directed the overall effort while the Corps of Engineers handled contract solicitation and award as well as the on-site management of the work.

I look forward to working with you, Mr. Chairman, and this committee, on these and other issues in the period ahead. I appreciate the opportunity to testify before you and would be happy to answer any questions you or other members of the committee may have. Thank you.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on International Operations and Human Rights, Committee on International Relations, House of Representatives

For Release on Delivery
Expected at
2:30 p.m. EDT
Thursday, June 27, 1996

STATE DEPARTMENT

Millions of Dollars Could Be Generated by Selling Unneeded Overseas Real Estate

Statement of Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division

G A O
75 years
1921 - 1996

GAO/T-NSIAD-96-195

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our report on the Department of State's management of more than $10 billion in U.S.-owned real estate at over 200 locations overseas.[1] State's management of overseas real property, through its Office of Foreign Buildings Operations (FBO), has been criticized since the early 1960s. In the early 1990s, we put overseas real property on our list of federal programs most vulnerable to waste and mismanagement.[2] State, to its credit, has since made substantial progress in improving its management through actions such as assigning skilled maintenance professionals to overseas posts and establishing maintenance assistance centers. In view of that progress, we removed real property from our high-risk list in February 1995.[3] However, we also told State that it should closely monitor this area. One remaining problem was State's retention of unused or excess property.

Results in Brief

Our current work indicates that State has not established an effective process for identifying and selling unneeded overseas real estate. Decisions concerning the sale of excess and unneeded property have often been delayed for years, largely because of parochial interests among the parties involved. As a result, State has a large inventory of excess real estate that could generate substantial revenue and reduce its budget requirements.

As of October 1995, State had listed over 100 overseas properties valued at $467 million for potential sale. However, we identified other properties worth millions of dollars not on the list that appear excess to State's needs or that have a questionable value. We cannot state with any certainty the actual amount of real estate that could be sold because of weaknesses in State's identification process. State does not have a systematic way of determining whether property is excess or too expensive to maintain.

State's current process for identifying and selling unneeded property requires the weighing of multiple factors presented by different groups with competing interests. As a result, FBO and the embassies are sometimes unable to expeditiously (1) reach agreement on properties to

[1] Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate (GAO/NSIAD-96-36, Apr. 23, 1996).

[2] High-Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

[3] High-Risk Series: Quick Reference Guide (GAO/HR-95-2, Feb. 1995).

sell, (2) move forward on sales, and (3) determine the appropriate use of proceeds. State officials attribute many delays to resistance from host governments and the need to weigh this and other factors against the economic benefits of selling property. Unfortunately, resolving these considerations often delays potential sales for years.

Additionally, we believe that the process for using and accounting for sales proceeds needs to be improved. State sold $53 million in real estate during fiscal year 1995. However, it did not routinely use the sales proceeds for State's highest priority real property needs. U.S. embassies involved in sales are usually given first priority in using sales proceeds. FBO believes that embassies will not cooperate in identifying excess properties unless they receive first consideration on how to use the proceeds. Further, State did not account separately for the use of the sales proceeds, making it difficult to verify the actual use of the funds.

Because of the strong interests embassies have in retaining their real estate and using the sales proceeds, external political pressures, and difficulties in resolving disputes, we believe that the Secretary of State should appoint an independent panel to decide which properties should be sold. In establishing this panel, consideration should be given to appointing representatives from State's Office of the Inspector General and Bureau of Finance and Management Policy as well as private sector representatives with real estate expertise. We believe the reasons for retaining any property should be weighed against the financial interests of the State Department and the U.S. government.

I would now like to describe more fully some of the more critical weaknesses in State's system. Let me begin with the property sales list.

Additional Property Could Be Listed for Potential Sale

Both State's October 1994 list and a second list submitted to the Office of Management and Budget in 1995 had about 100 properties listed for potential sale. Properties on the 1994 list were valued at $250 million. One year later, State added high-value properties—including four in Singapore, Paris, and Bangkok—to its list, bringing the total value of properties available for sale to $467 million.

However, State holds other properties that it could potentially sell that were not on these lists. Some of the properties we identified were worth millions of dollars. These include (1) properties that have been retained at closed posts, including Zanzibar, Tanzania; and Alexandria, Egypt;

(2) properties that are vacant, unneeded, or unsuitable for the purposes for which they were acquired, including some in Nassau, the Bahamas; Dakar, Senegal; and Rabat, Morocco; and (3) high-value properties that are over sized or not needed in Hamilton, Bermuda; Buenos Aires, Argentina; Prague, the Czech Republic; and Budapest, Hungary.

State has often been slow in taking action to dispose of property at closed posts.

- In Zanzibar, the consulate general residence has been kept and used predominantly for recreational purposes even though the consulate closed 17 years ago. According to State's Inspector General, the property was used 36 nights for representational purposes and 122 nights for recreational purposes in 1994. Renovation costs have exceeded $130,000, and maintenance and salary costs relating to the property exceeded $30,000 in 1994. Reportedly, there are several hotels in the area that could meet State's requirements.
- The consulate general residence in Alexandria, valued at over $1 million, remains in FBO's inventory 3 years after the consulate closed, in part because State officials hoped that the post would be reopened. State has retained the property because it was ideal for representational purposes. The house, occupied by a representative of the U.S. Information Agency, was used to host 14 mostly academic and cultural events in 1995. State's Inspector General has questioned such retention, describing the situation regarding this property as an "apparent lack of concern for the financial loss being incurred by the U.S. government."

In Nassau, State did not act to sell an unneeded 11-acre site originally intended for construction of a new embassy. The need to dispose of it was recognized in 1993. In response to our work, State has now added Nassau to its disposal list, obtained updated appraisals, and outlined steps for sale of the property. The property is valued at $1 million.

In Hamilton, Bermuda, State owns an expensive-to-maintain residence, known as Chelston, for the consul general. In April 1994, the post estimated that the property was worth over $12 million. An FBO survey in February 1993 disclosed that the residence needed $240,000 in major repairs. Annual operational and maintenance costs for this residence were reported in excess of $100,000. The 10,000 square-foot main house is part of a 14-acre beachfront estate. State's Inspector General has repeatedly recommended selling the property and, in a September 1993 report, stated that "at a time of continual budget constraints, the Department cannot afford the luxury of maintaining this ostentatious piece of property." State responded that the government of Bermuda opposed the sale and has taken no further action on the matter.

State also did not take full advantage of opportunities to sell properties in Tokyo that are valued at millions of dollars. In April 1995, we reported that the Treasury Department owned a residence (formerly used by the Treasury financial attache) that had deteriorated and was no longer usable.[4] It was estimated that the house could have sold for $15 million in 1991. However, Treasury and State could not reach agreement on its sale, and by 1994 the estimated value of the property had decreased to $5 million. We recommended that Treasury sell the property and deposit the proceeds in the general fund of the Treasury. In May 1996, Treasury negotiated a transfer of the property to State in return for free housing on the Mitsui compound for Treasury employees. The residence is now on State's list of property for potential sale. We also recommended that State sell the Deputy Chief of Mission residence.[5] State did not agree with our position believing that the residence plays an important role in bilateral relations with Japan and that cost considerations should not be the sole determinant in whether to sell the residence. We believe the merits of this argument could be best assessed by an independent panel.

No Systematic Process to Identify and Dispose of Excess Property

Properties on FBO's potential sales list were identified for sale through the individual actions of embassies, FBO officials, and State's Inspector General. State indicated that the totality of these actions constitutes a systematic process for identifying real estate that should be sold. We disagree, particularly since embassies lack incentives to identify, report on, and sell property unless they can use the proceeds for their own use.

Also, in several cases embassies and FBO had protracted and costly disagreements over whether to sell property and how to use the proceeds. For example, in Brasilia the embassy and FBO had a standoff for over 2-1/2 years over whether to (1) sell vacant lots and use the proceeds to renovate a 29-unit apartment building or (2) sell an apartment building and other property and use the proceeds to build residences on the vacant lots. During this dispute, the embassy spent $580,000 annually to lease housing, while the 29 apartments remained vacant.

[4] Overseas Real Estate: Inaction on Proposals to Sell High-Value Property in Tokyo (GAO/NSIAD-95-73, Apr 7, 1995).

[5] A 1991 study appraised the property, which contains the Deputy Chief of Mission residence, at $92 million. A replacement residence could have been provided for $4 million on the Mitsui compound.

The ambassador's 43,000 square-foot residence in Buenos Aires is an example of State's lack of incentives to sell property. The issue of selling this property dates back to 1969. In 1993, after a delegation of congressional and State officials visited Argentina, State announced it would retain and restore the $20-million residence. According to the Inspector General, "The residence will continue to represent a major expense which the inspectors doubt can be justified indefinitely if budgets continue to shrink."

FBO policy states that unresolved disputes will be submitted to State's Assistant Secretary for Administration for further review and discussion. However, disputes sometimes drag on for years. Of the cases that we reviewed, the Assistant Secretary was involved in only the Brasilia dispute, but only after the dispute had been ongoing for 2-1/2 years. The problem of conflicting interests and difficulties in agreeing on property sales is the reason we recommend that the Secretary establish an independent panel to facilitate the identification and disposal of excess, unusable, or uneconomical overseas real property.

FBO Has No System to Account for Proceeds and Ensure That They Are Spent for Most Urgent Needs

From fiscal years 1990 to 1995, State made real estate sales totaling $133 million.[6] FBO has not developed a procedure for routinely using sales proceeds to meet priority worldwide requirements. As an incentive for embassies to agree to a sale, FBO normally gives those embassies first consideration when determining the use of sales proceeds. For any sales proceeds not used in a country where the sale occurred, FBO may use the funds to reduce its lease costs or to acquire new property. FBO maintains that it evaluates the legitimacy and economic soundness of each proposal, but it does not routinely weigh the proposal against the needs of other embassies.

State has the authority to retain and use proceeds from real estate sales. State reports the use of proceeds to the Congress in its annual budget submission. However, the reliability of the information is questionable because proceeds are commingled with appropriated funds and State does not detail how the funds are specifically used. We note that State has recently reported that it intends to establish a separate program activity for sales proceeds. This may help improve accountability for the actual use of sales proceeds.

[6]This figure includes $48.8 million from the forced sale of property in Singapore because of road construction.

Recommendations

In summary, the State Department has millions of dollars invested in overseas properties that may be unneeded or too expensive to maintain, particularly given budget constraints. Proper management of State's overseas property could generate considerable revenue for higher priority use. As noted earlier in my testimony, we recommended that State establish an independent panel to review and recommend the sales of excess property. We believe such a panel can help effectively reduce the current inventory of property and ensure proper management in the future. Further, to provide a routine process for expeditiously resolving disagreements between FBO and the embassies, we have recommended that State prepare annual reports identifying all excess properties whose sale FBO and the embassies cannot agree on. We have also recommended that State improve its accounting and reporting on the use of sales proceeds.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you may have.

ISBN 0-16-053537-9

90000

9 780160 535376